

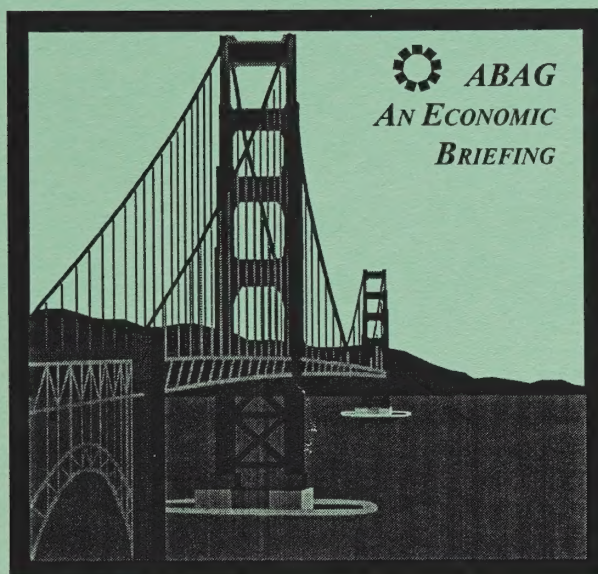
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THE RETURN OF OPTIMISM?



REGIONAL ECONOMIC OUTLOOK: 1997 & 1998

JANUARY 29, 1997
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ABAG Special Conference:

The Return of Optimism?

A Regional Economic Outlook: 1997 and 1998

January 29, 1997

Association of Bay Area Governments
P.O. Box 2050
Oakland, California 94604-2050
(510) 464-7900

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AN ECONOMIC CONFERENCE: THE ASSOCIATION OF BAY AREA GOVERNMENTS

WEDNESDAY, JANUARY 29, 1997

8:30 A.M. - 12 NOON

AUDITORIUM

JOSEPH P. BORT METROCENTER


101 EIGHTH STREET AT OAK

OAKLAND, CALIFORNIA

THE RETURN OF OPTIMISM?

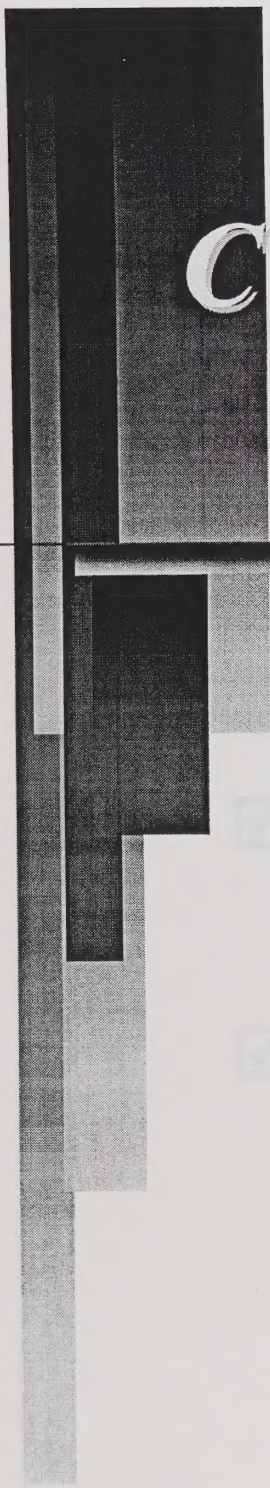
A REGIONAL ECONOMIC OUTLOOK: 1997 AND 1998

8:30 A.M.	REGISTRATION AND COFFEE	
9:00 A.M.	WELCOME AND OVERVIEW	
9:10 A.M.	CALIFORNIA'S OUTLOOK: THE TRILLION DOLLAR ECONOMY? SOLID GROUNDS FOR OPTIMISM THE INFORMATION ECONOMY: ALL ABOARD THE CAL EXPRESS A SILVER LINING FOR RESTRUCTURING INDUSTRIES?	TED GIBSON CHIEF ECONOMIST, STATE DEPT. OF FINANCE
9:50 A.M.	BAY AREA: ECONOMIC LEADER? WHERE IS GROWTH LIKELY TO OCCUR? WHAT SORT OF JOBS CAN WE EXPECT? HOW LONG WILL THE GROWTH CONTINUE?	PAUL FASSINGER RESEARCH DIRECTOR, ABAG
10:45 A.M.	SHORT-TERM FORECASTS TAXABLE SALES: HAS CONSUMER CONFIDENCE BEEN RESTORED? COUNTY FORECASTS: LOCAL STRENGTHS AND WEAKNESSES	DAN STONE REGIONAL PLANNER, ABAG
11:20 A.M.	THE RENTAL CRUNCH WHO'S TO BLAME AND WHO'S TO FIX IT? IMPLICATIONS FOR THE BUILDING INDUSTRY	BRADLEY INMAN SYNDICATED REAL ESTATE COLUMNIST
11:45 A.M.	QUESTIONS AND ANSWERS	



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California '97: Another Year of Solid Growth

Reaching the Trillion Dollar Milestone

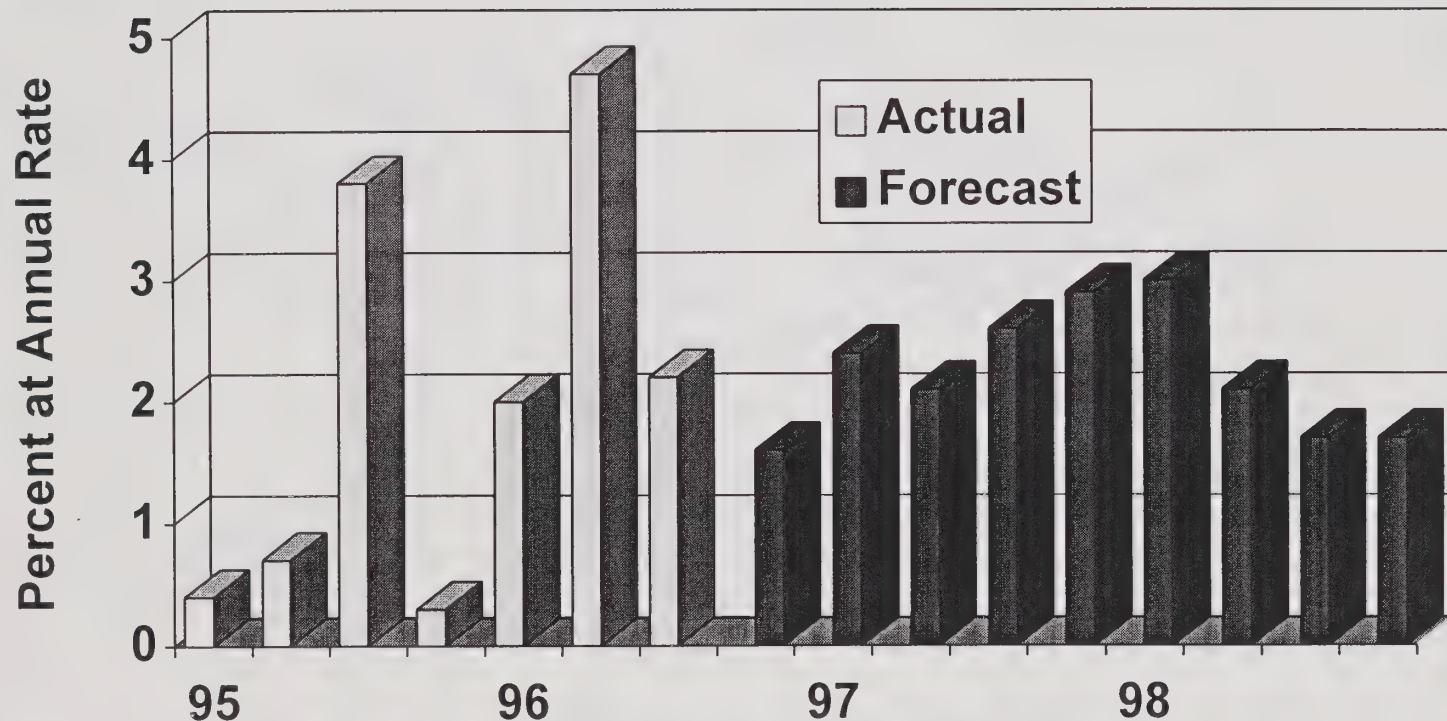
Ted Gibson
Chief Economist, California State Dept. of Finance

National Backdrop

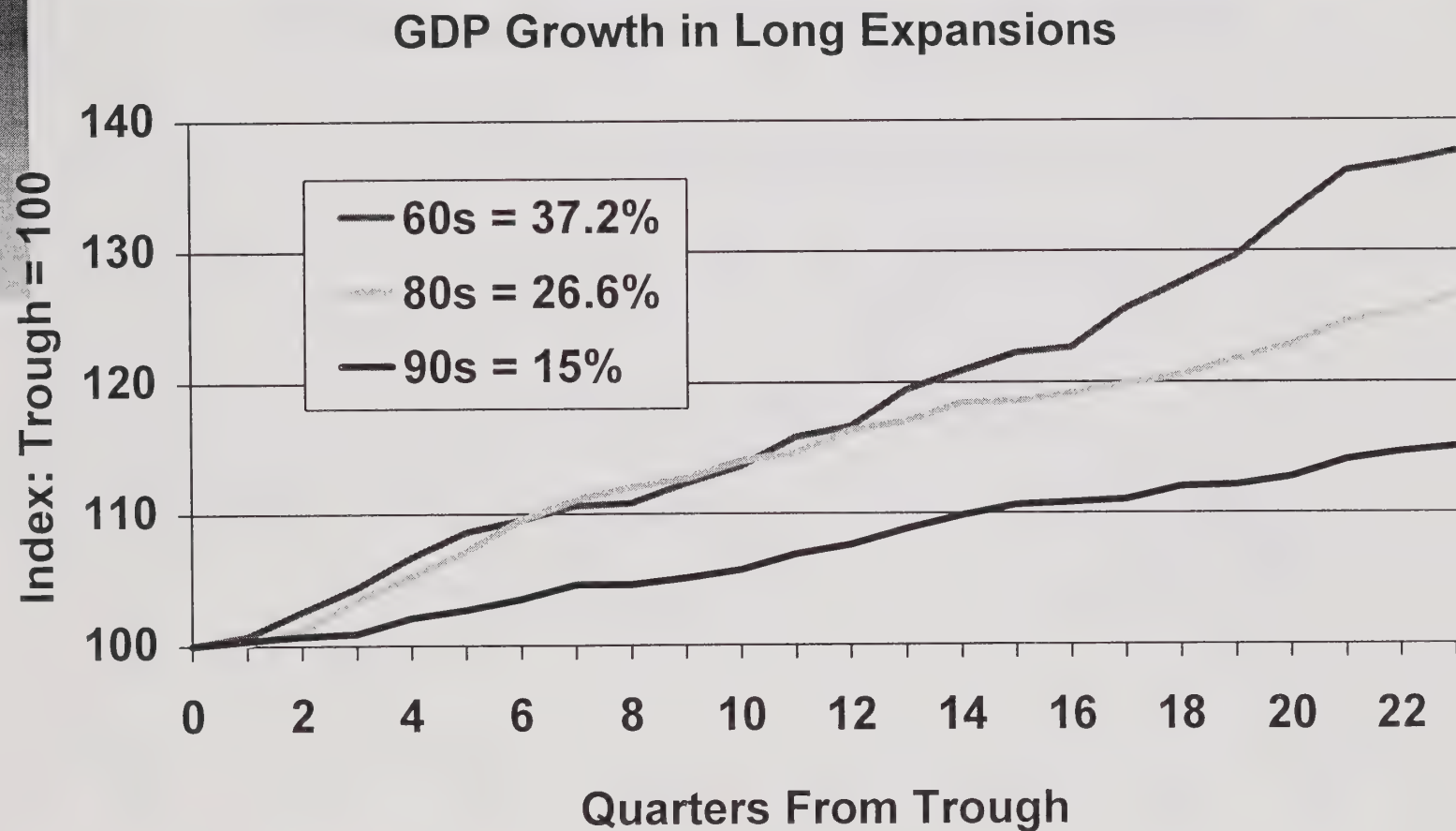
- ☑ *Moderate expansion to continue*
- ☑ *Slow pace produces few imbalances or excesses*
- ☑ *Slight worries over household debt, tight labor markets, possible wage pressure*
- ☑ *Are we underestimating economic growth?*

Real GDP Growth to Continue at 2 to 2-1/2 Percent Pace

US Real GDP Growth

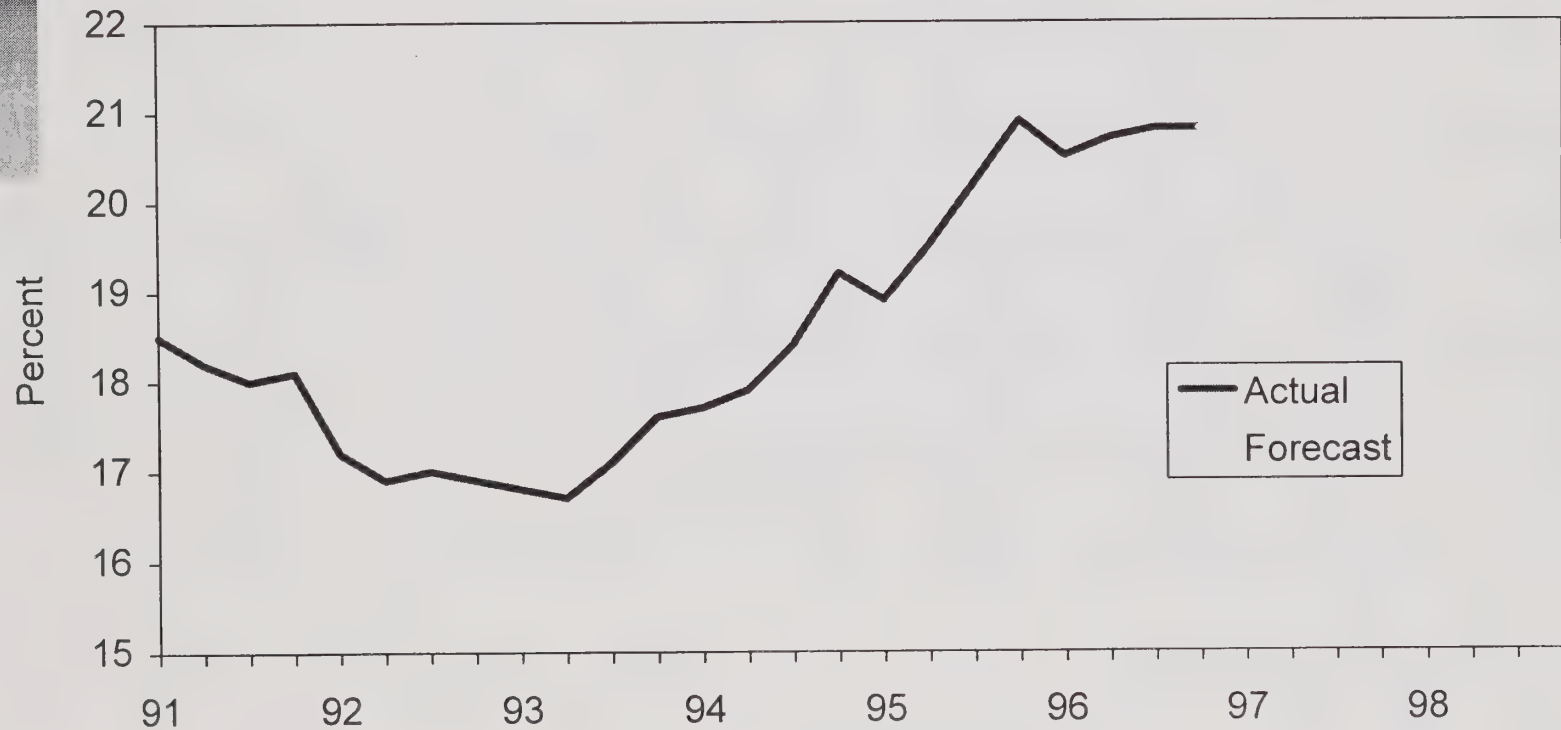


Slow pace is contributing to expansion's longevity

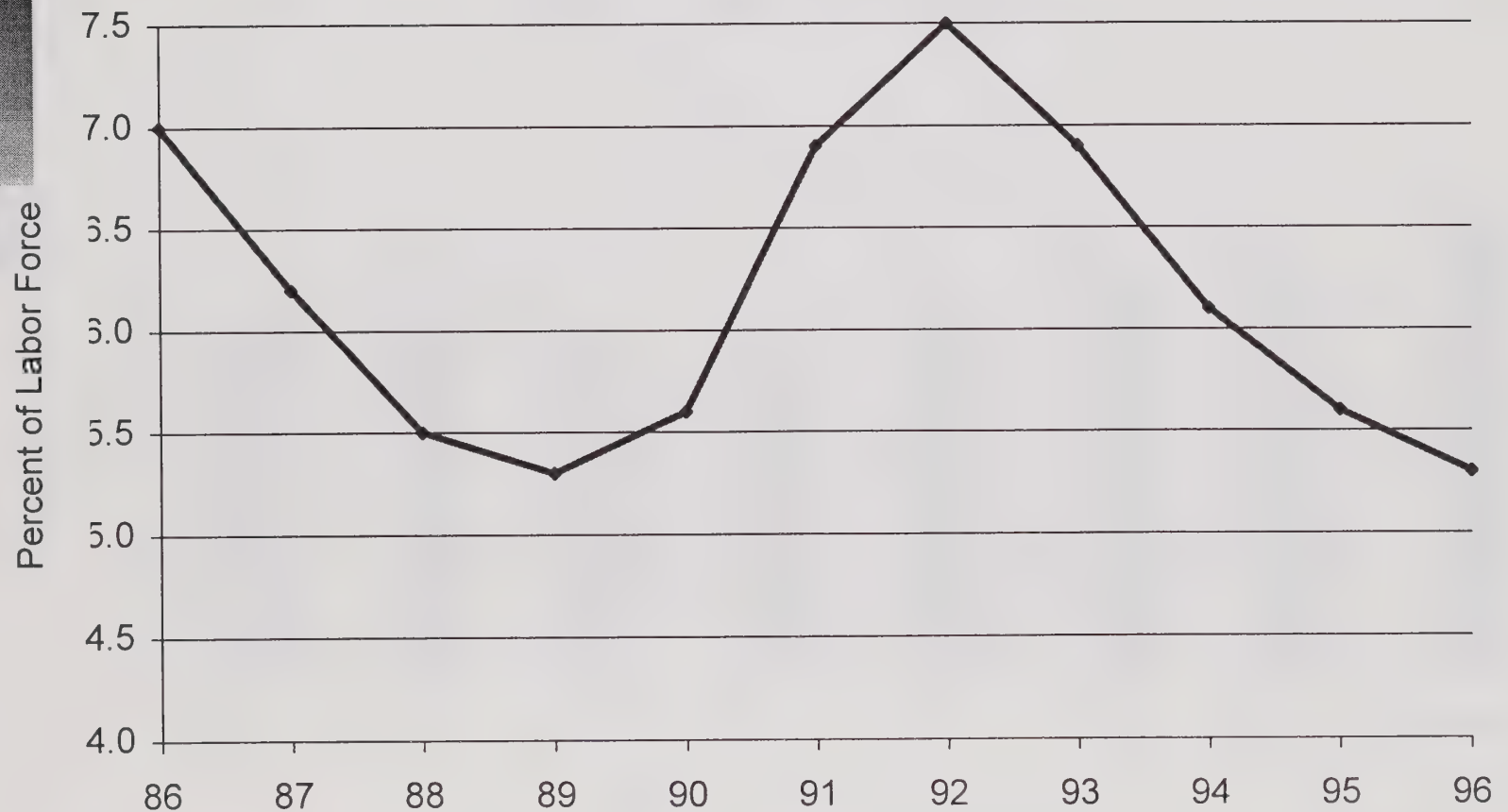


Household debt is high, but borrowing is leveling off

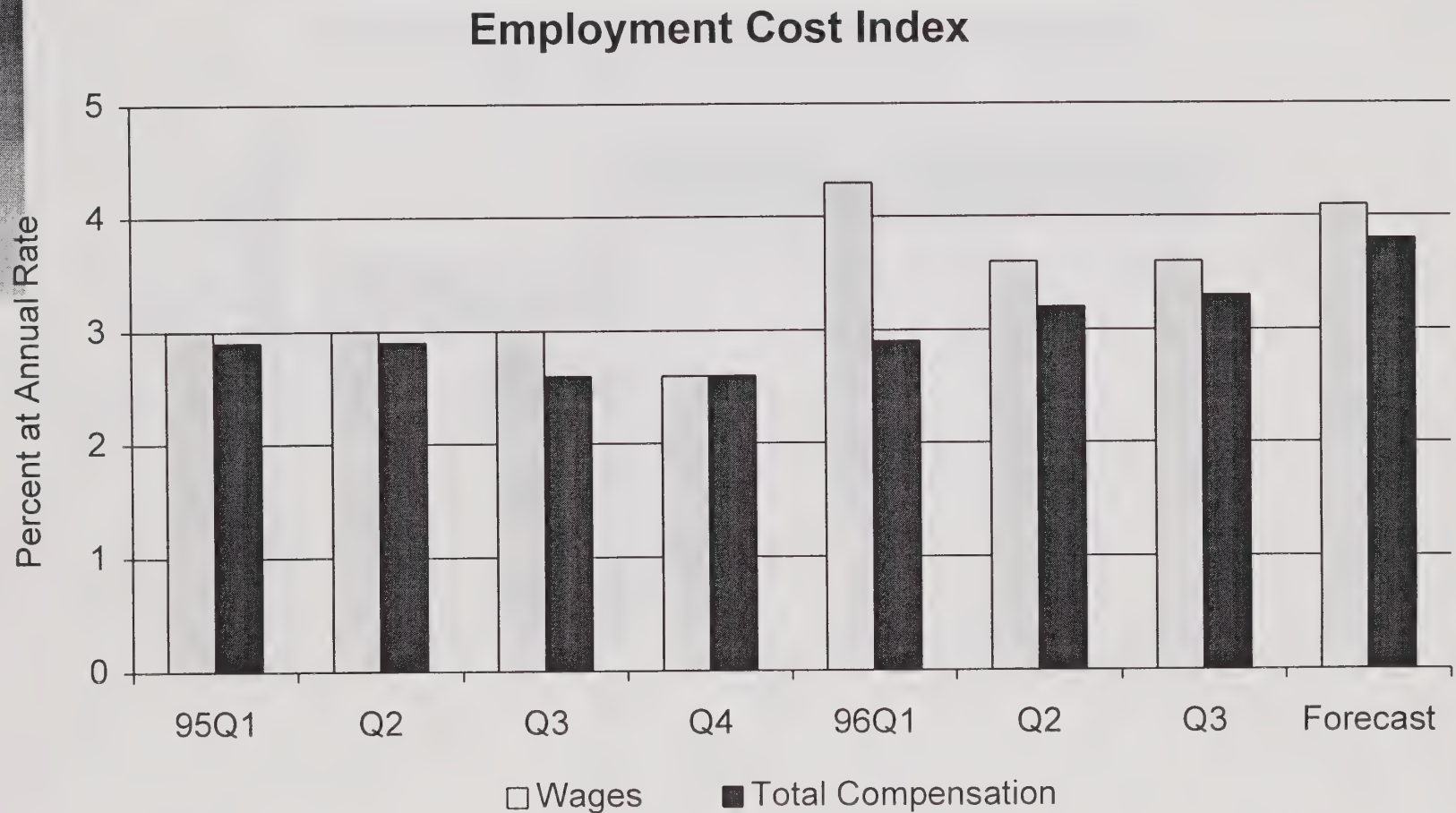
Installment Debt as % of Disposable Income



Inflation worries: Unemployment Rate is at 6-year low

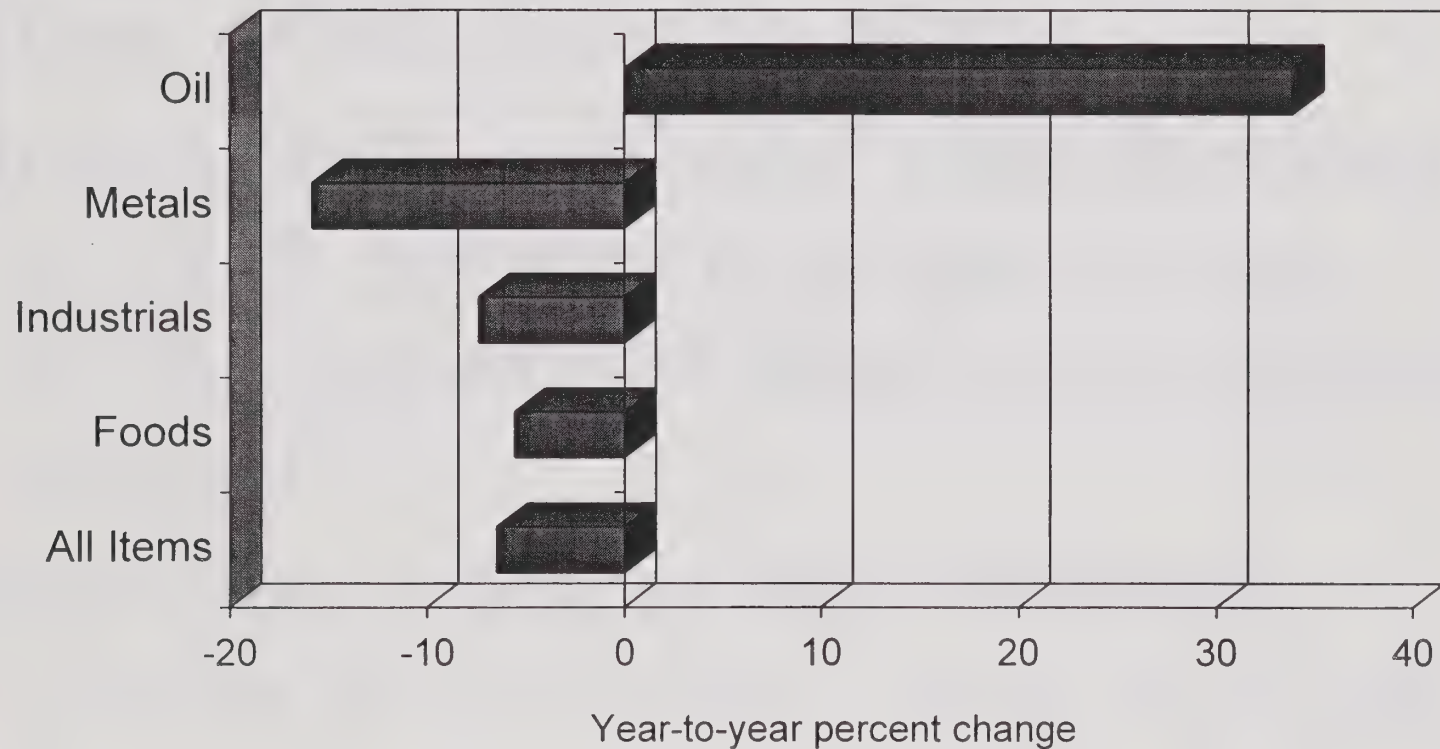


Employment costs remain low. . . but are wages on the rise?



Commodity prices, except oil, are falling

**The Economist Commodity Price Index,
December 1996 (US \$)**



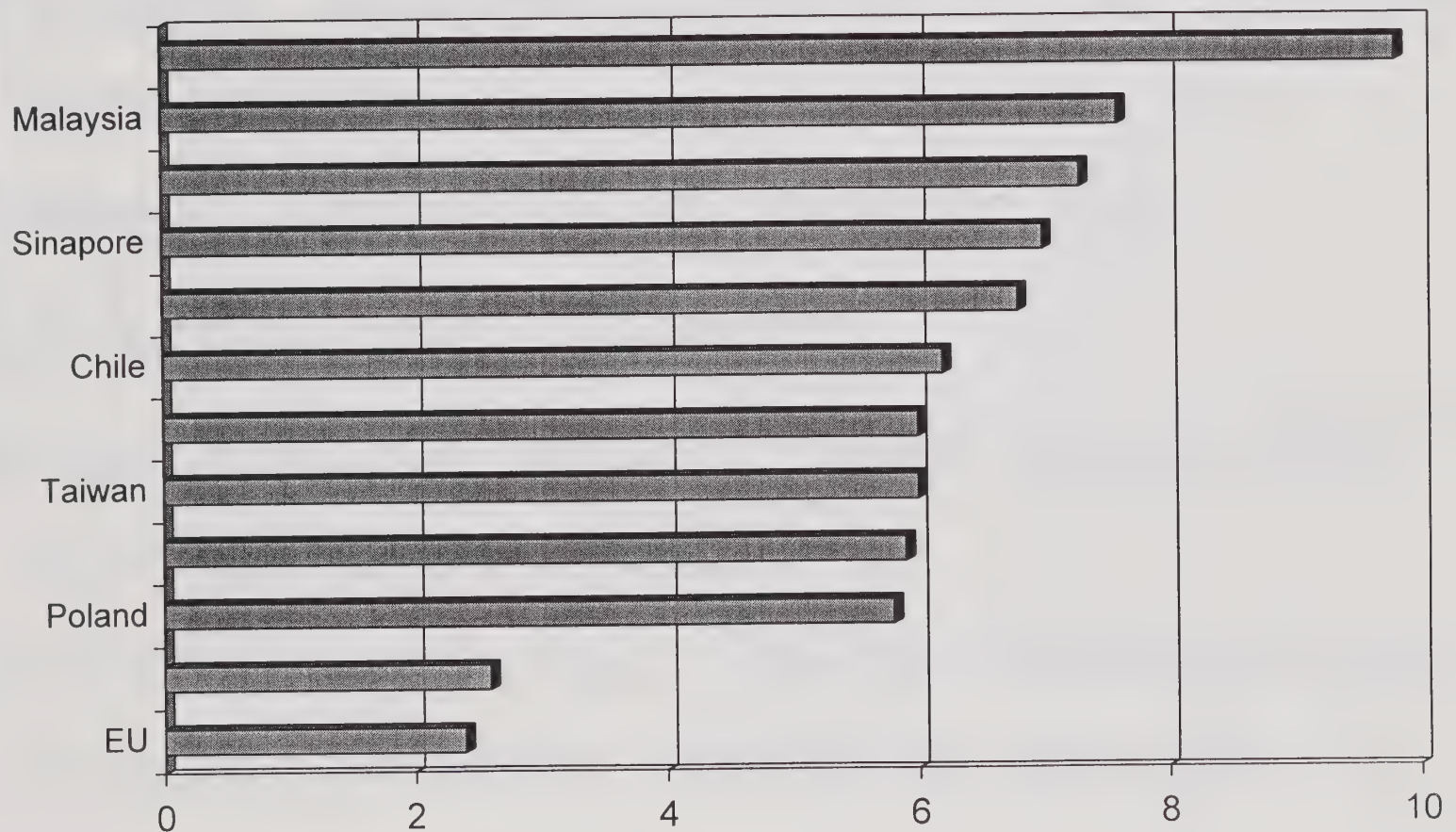
Is US Economic Growth Understated?

The Return of Optimism?

- ☑ *Boskin Commission: If inflation is less, then growth must be higher*
- ☑ *Productivity anomaly: Manufacturing up 3-1/2 %, but total business up only 0.3%—big drop in services productivity implied.*
- ☑ *Income vs. output gap: Suddenly, income is \$100 billion more than output.*

In 1997, 8 of 10 leading growth economies are on Pacific Rim

Projected Percentage Growth in Real GDP

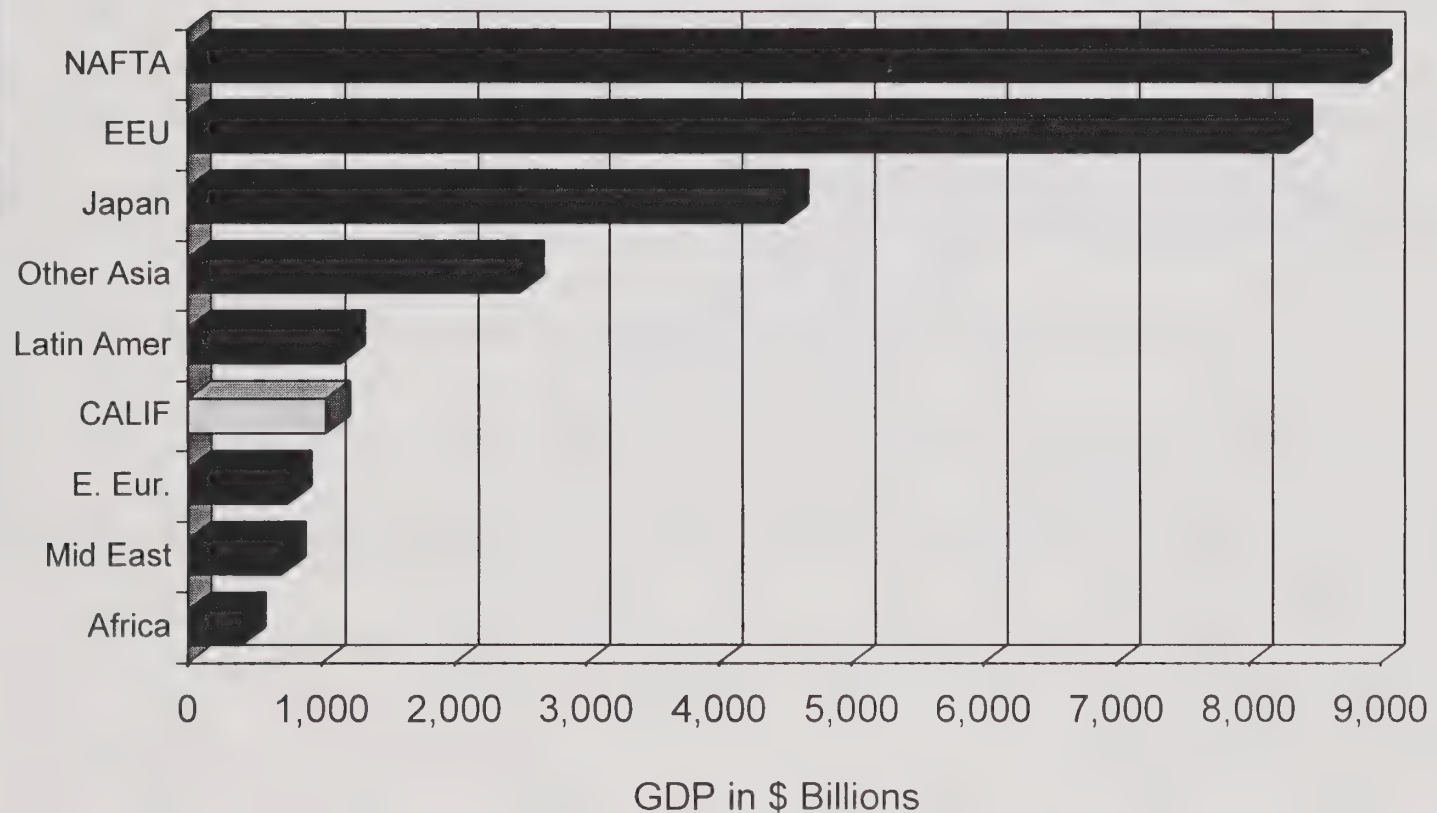


Favorable Environment for California

- ☑ *Steady, moderate growth in US, Europe and Japan*
- ☑ *Rapid growth on the Pacific Rim*
- ☑ *A turnaround in Mexico*
- ☑ *Low inflation should mean reasonably stable interest rates*
- ☑ *State Government Policy Initiatives are helping promote economic growth*

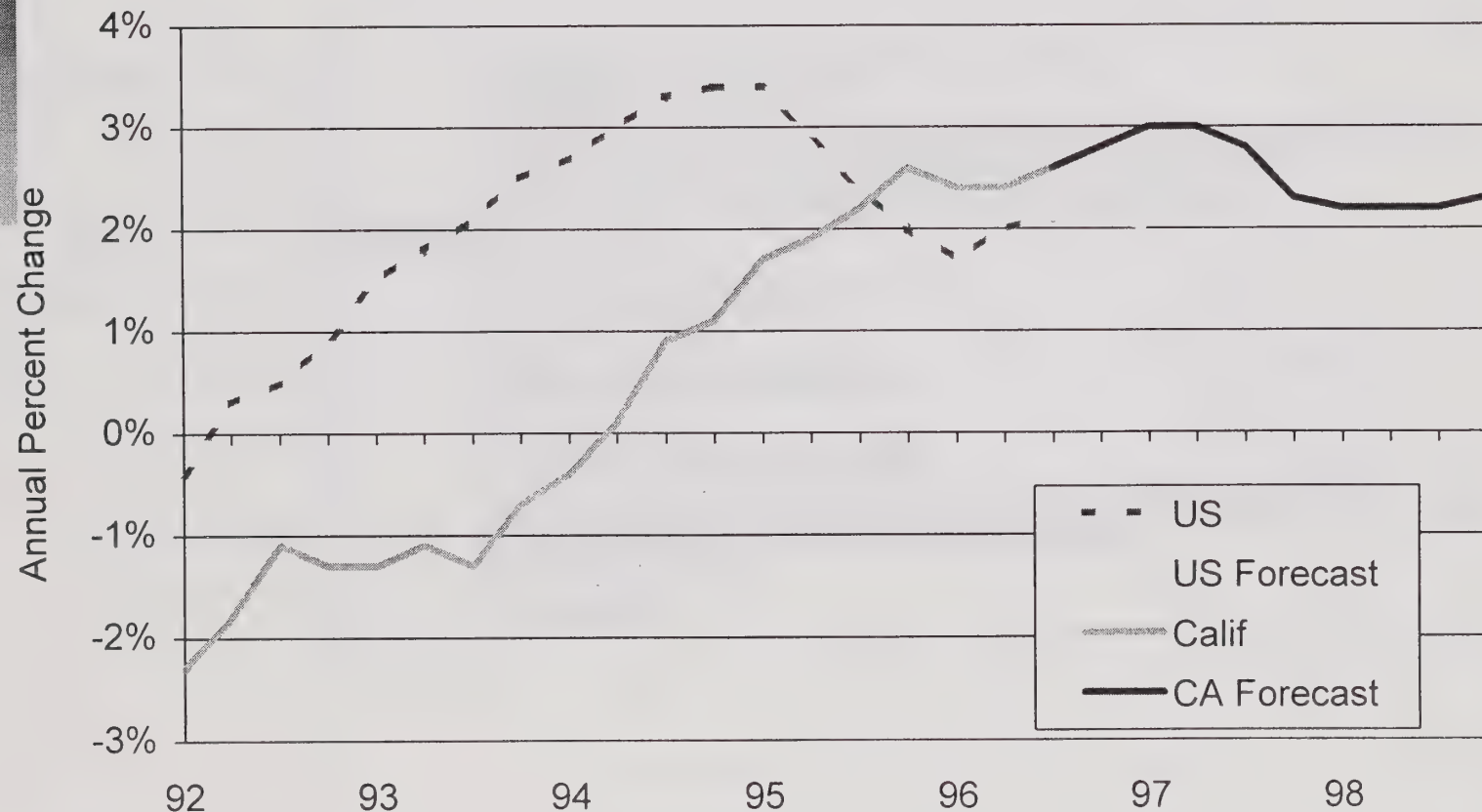
Context of a Trillion Dollar Economy

California and World Economic Regions



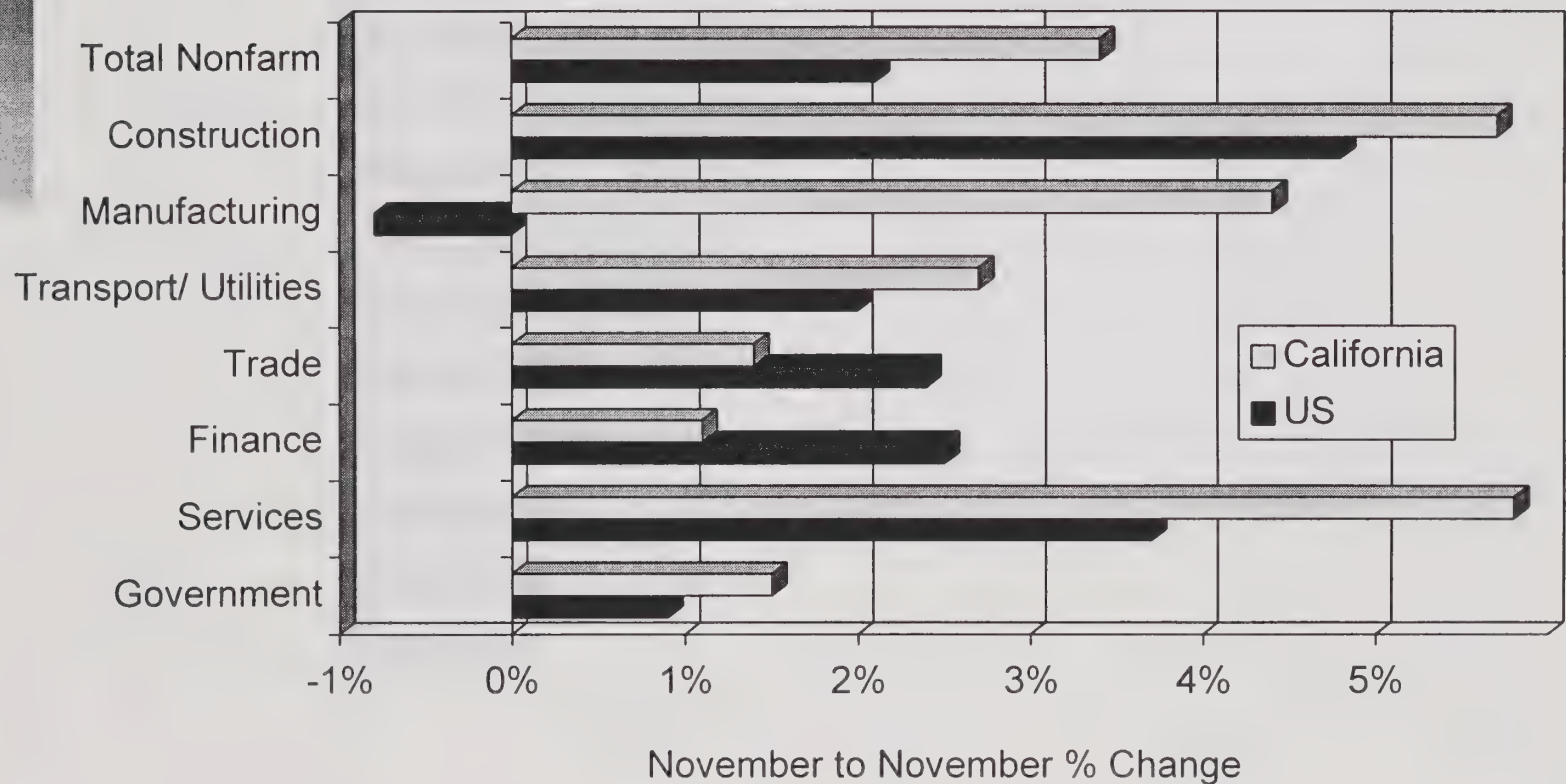
California is again outpacing US economic growth

California and US Nonfarm Employment

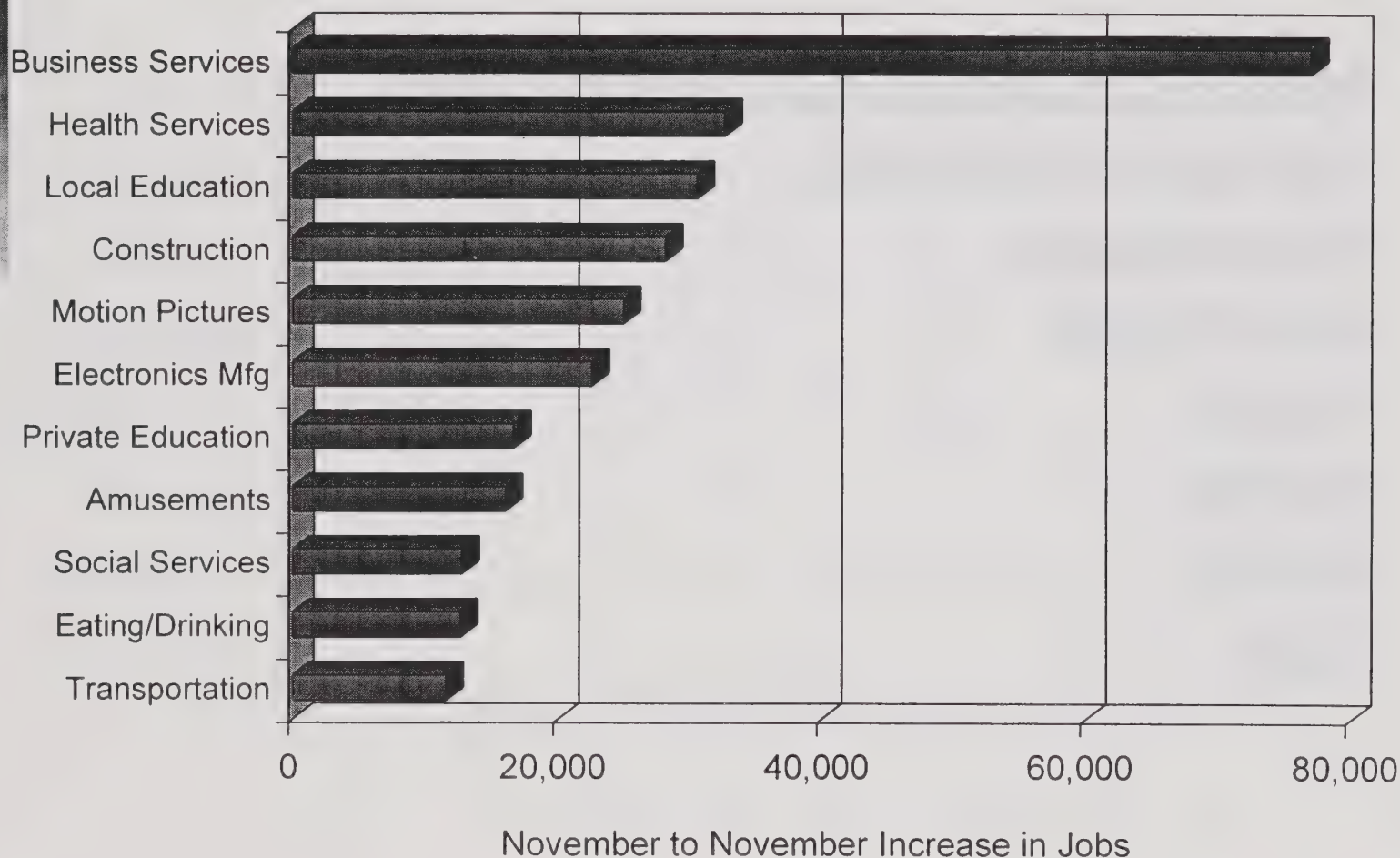


Manufacturing, Construction and High-Tech Services lead the way

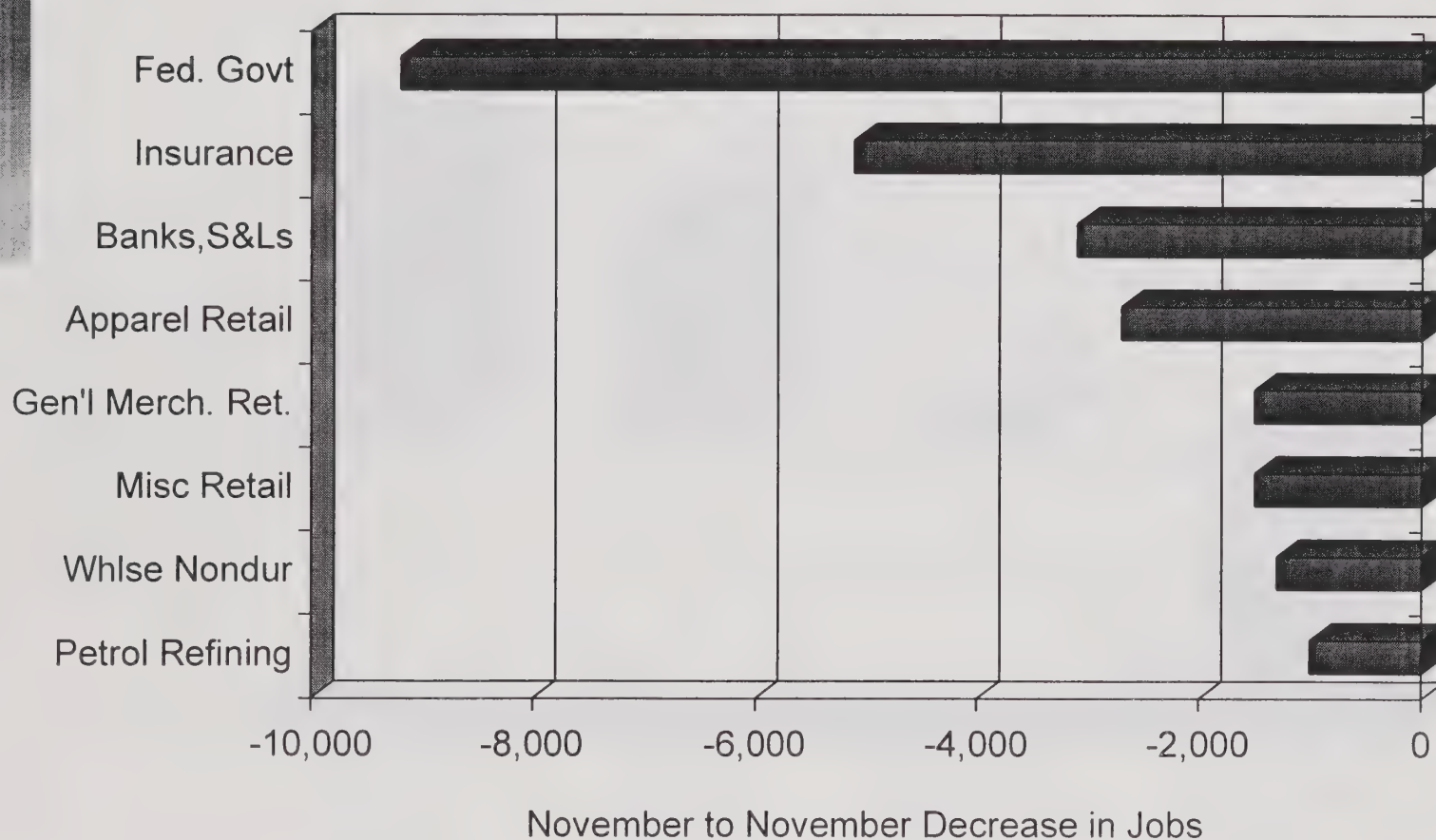
Nonfarm Employment, California and US



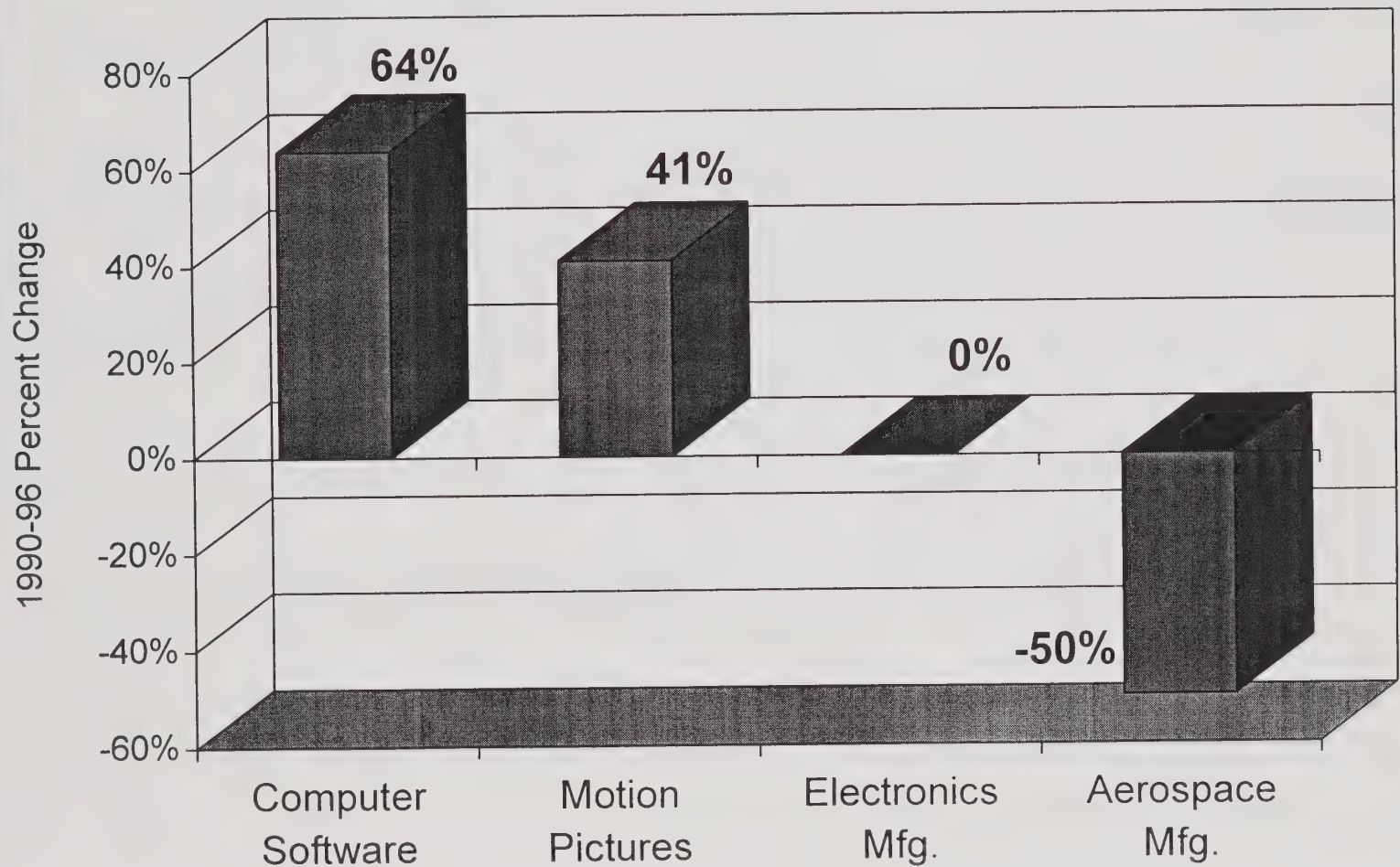
What's Up? California's Leading Growth Industries



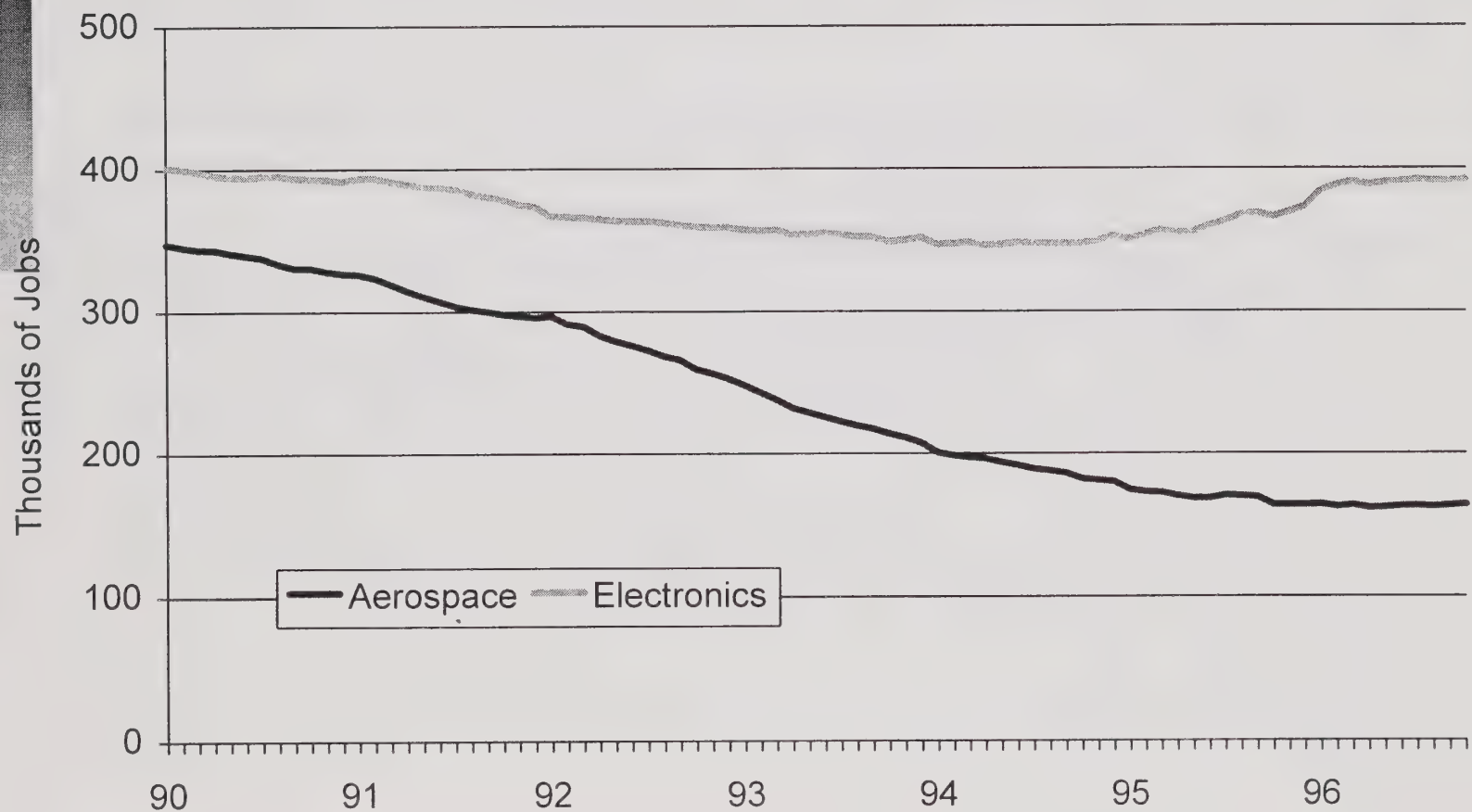
What's Down? Industries still losing jobs in California



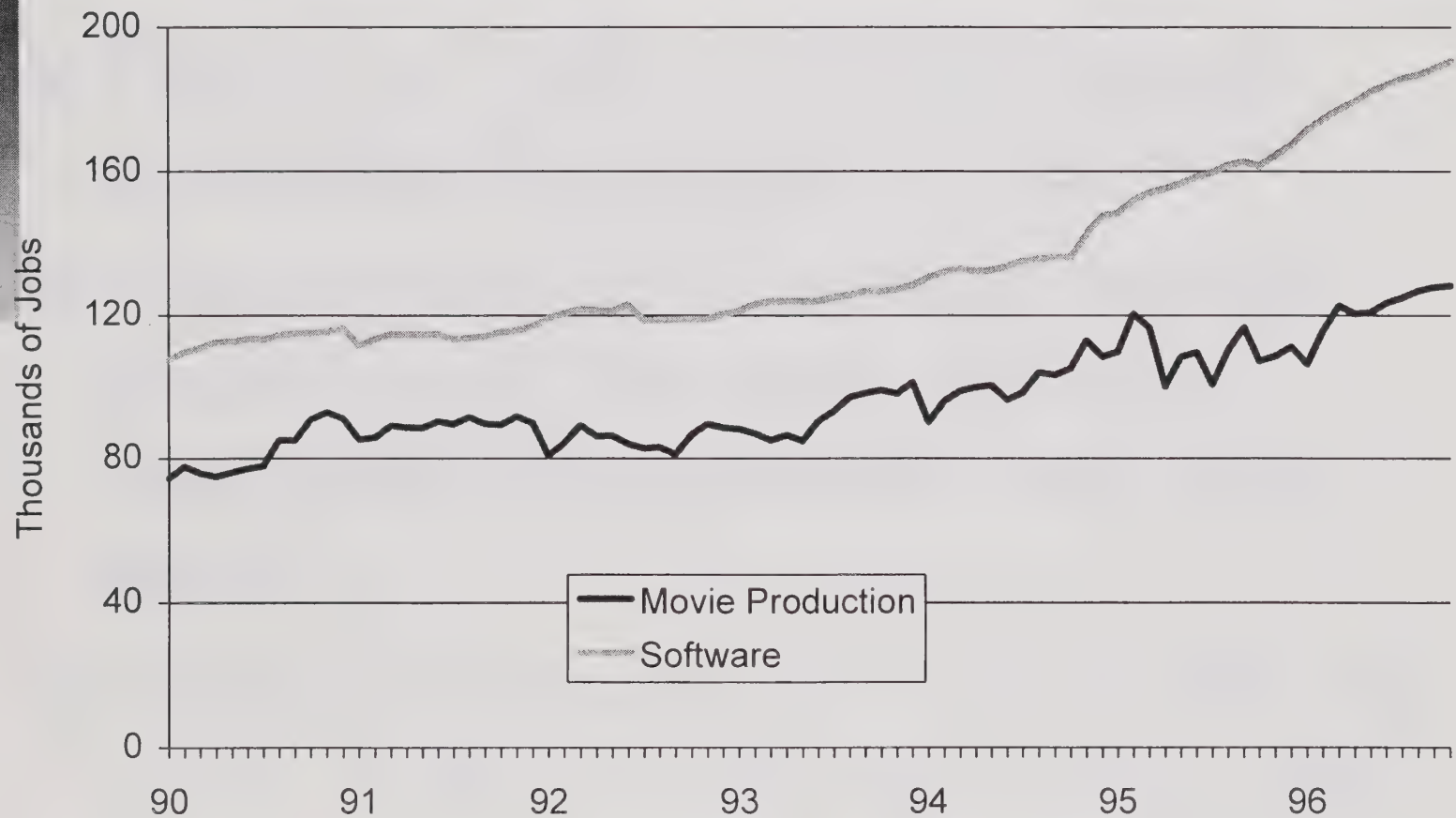
Employment in Key California Industries, 1990 to 1996



Electronics has recovered; Aerospace has stabilized



Software and Movies grew throughout the recession

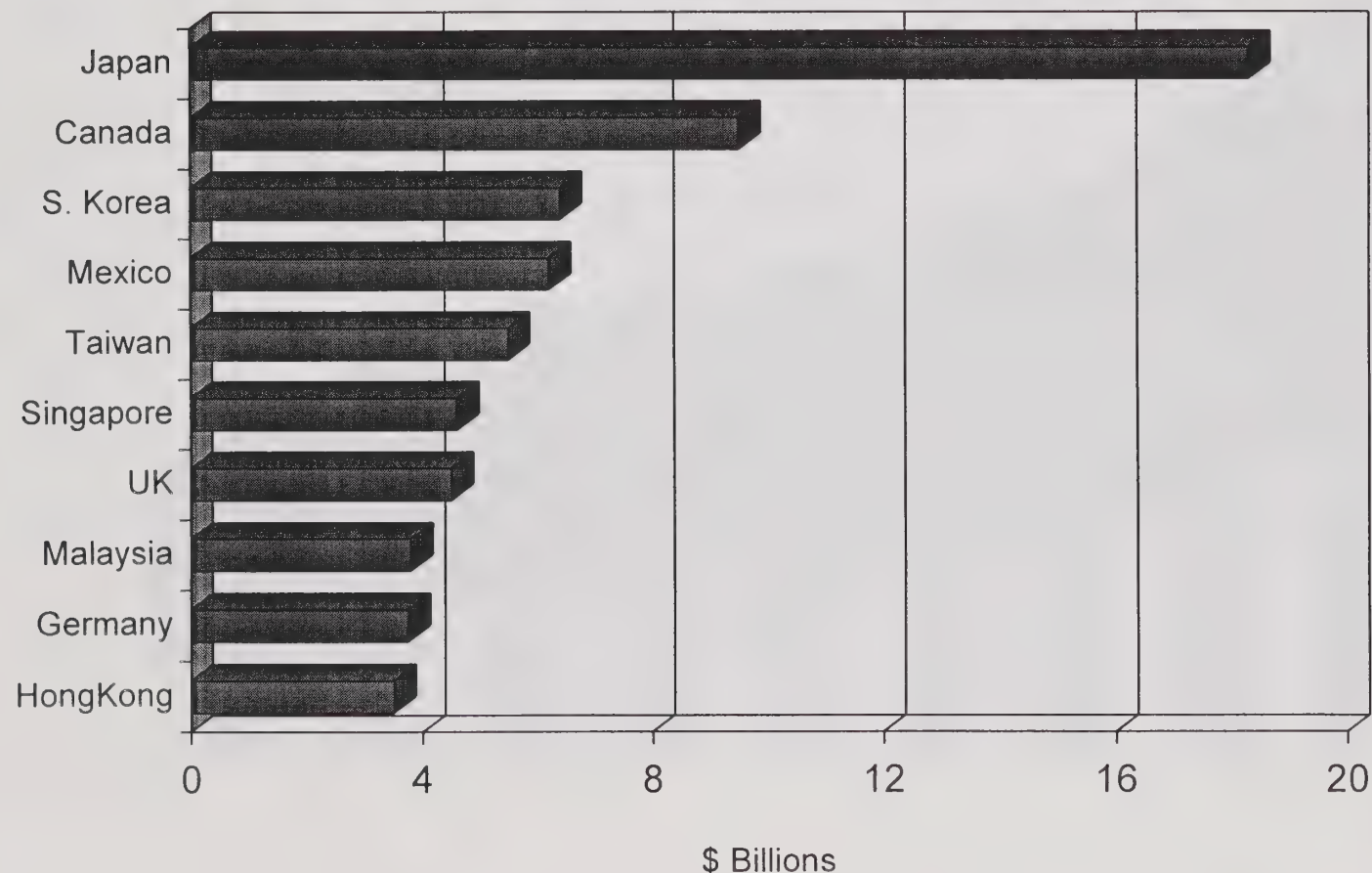


International Trade is a Key Element in State's Recovery

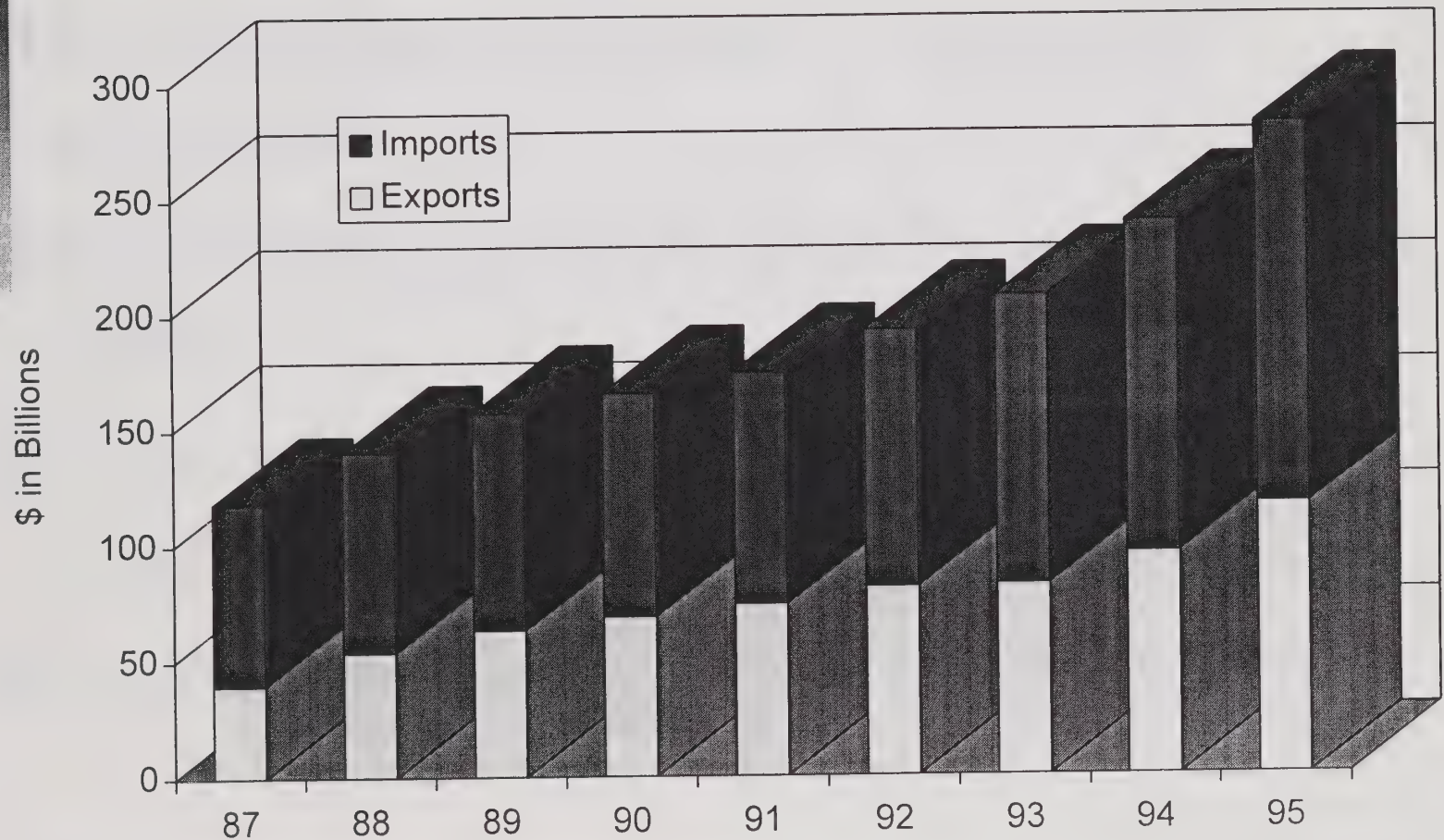
- ☑ *Exports of California-made goods exceeded \$100 billion in 1996*
- ☑ *Including services such as motion pictures and computer software, California-made exports total \$150 billion*
- ☑ *California exports as much to the rest of the world as to the rest of the US.*

Pacific Rim Nations are major markets for California-made goods

Exports of California-Origin Goods, 1995



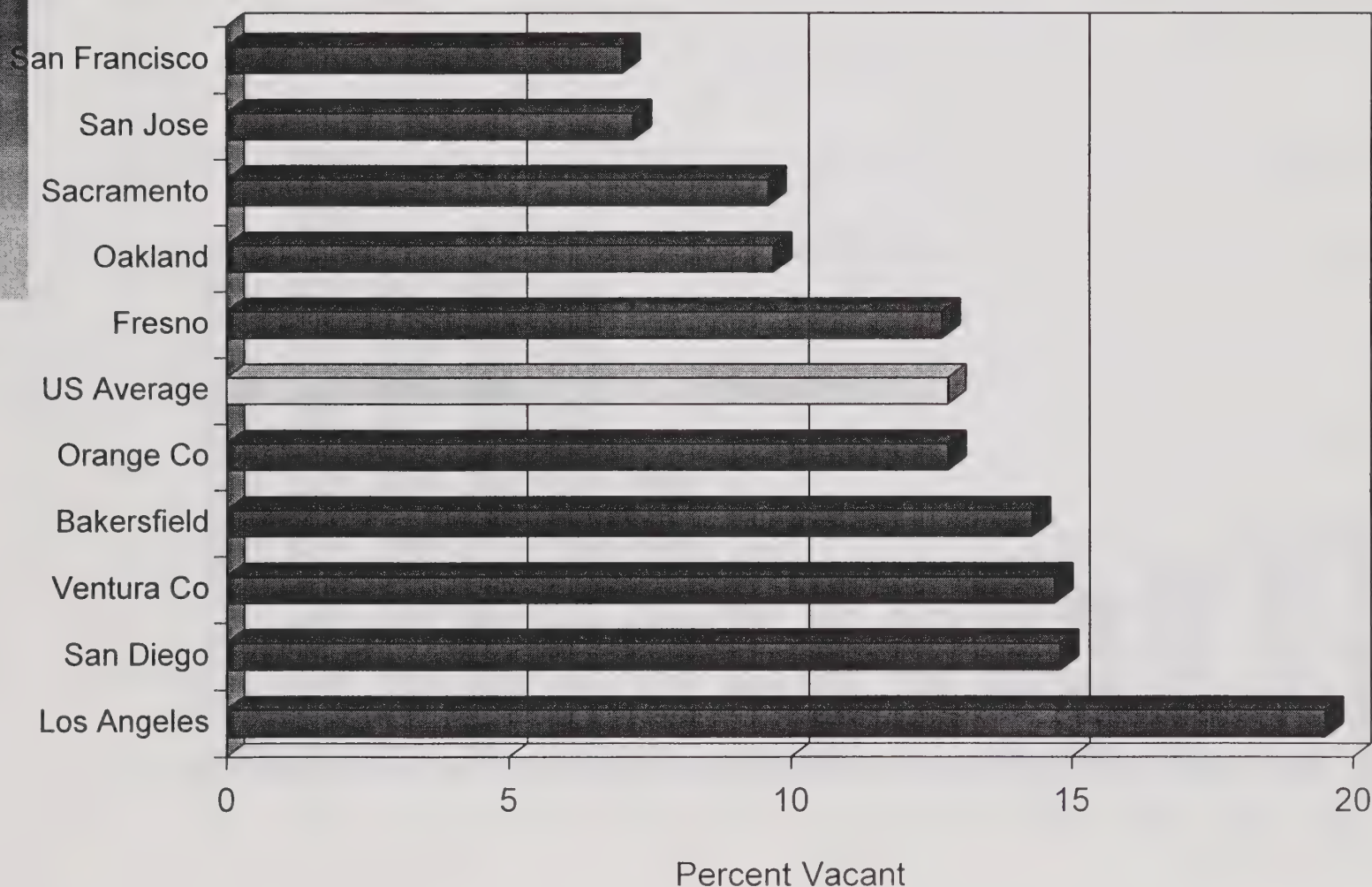
California ports handle nearly 25% of goods in US trade



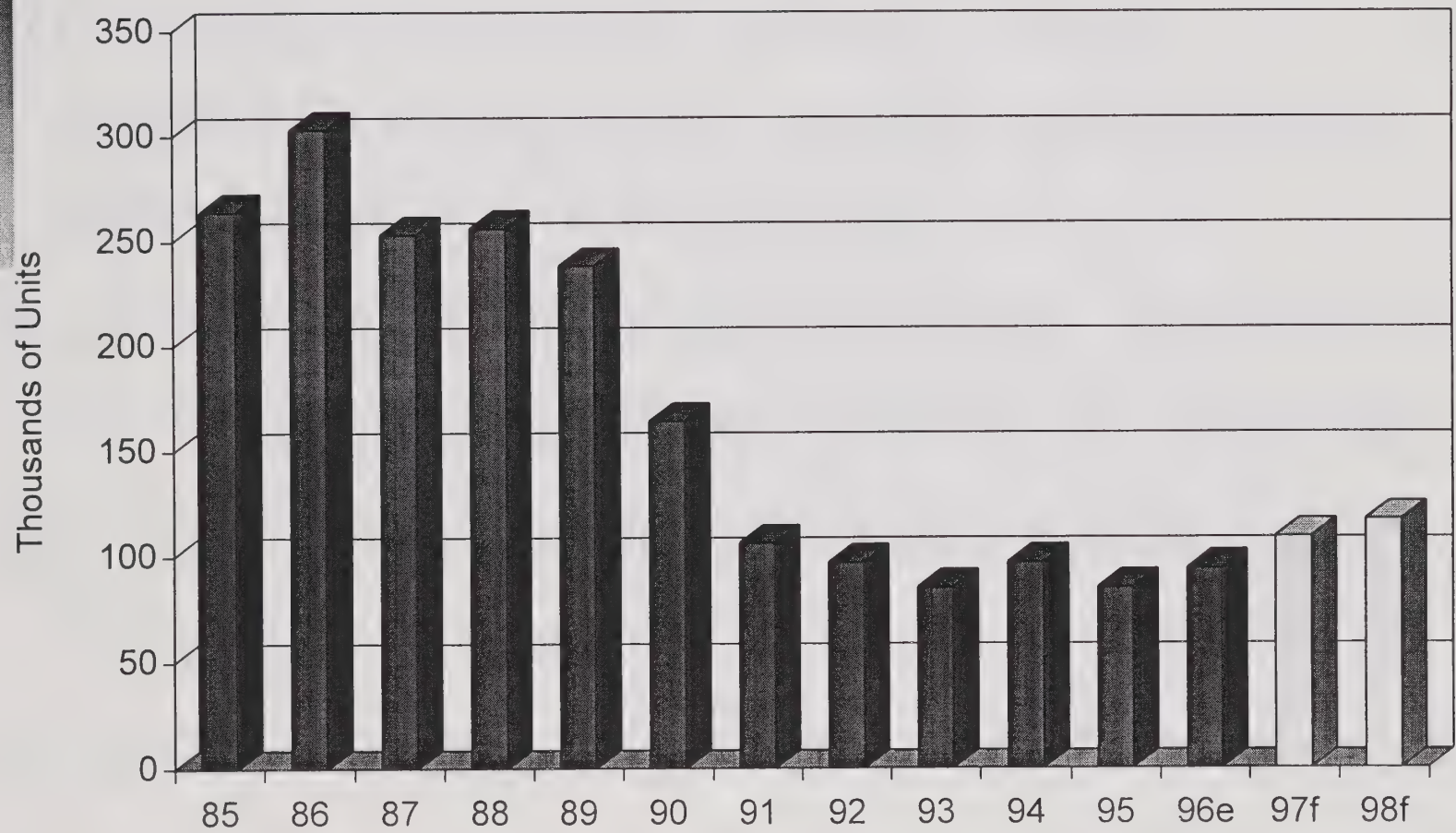
Construction employment is up, despite slow housing sector

- ☑ *Nonresidential upturn is pleasant surprise*
- ☑ *Industrial space scarce throughout the state*
- ☑ *Commercial vacancies below national average in the North*
- ☑ *Coming upturn in hotel construction?*

Office vacancy in Northern Calif. is below the national average



Homebuilding recovery has been the missing piece

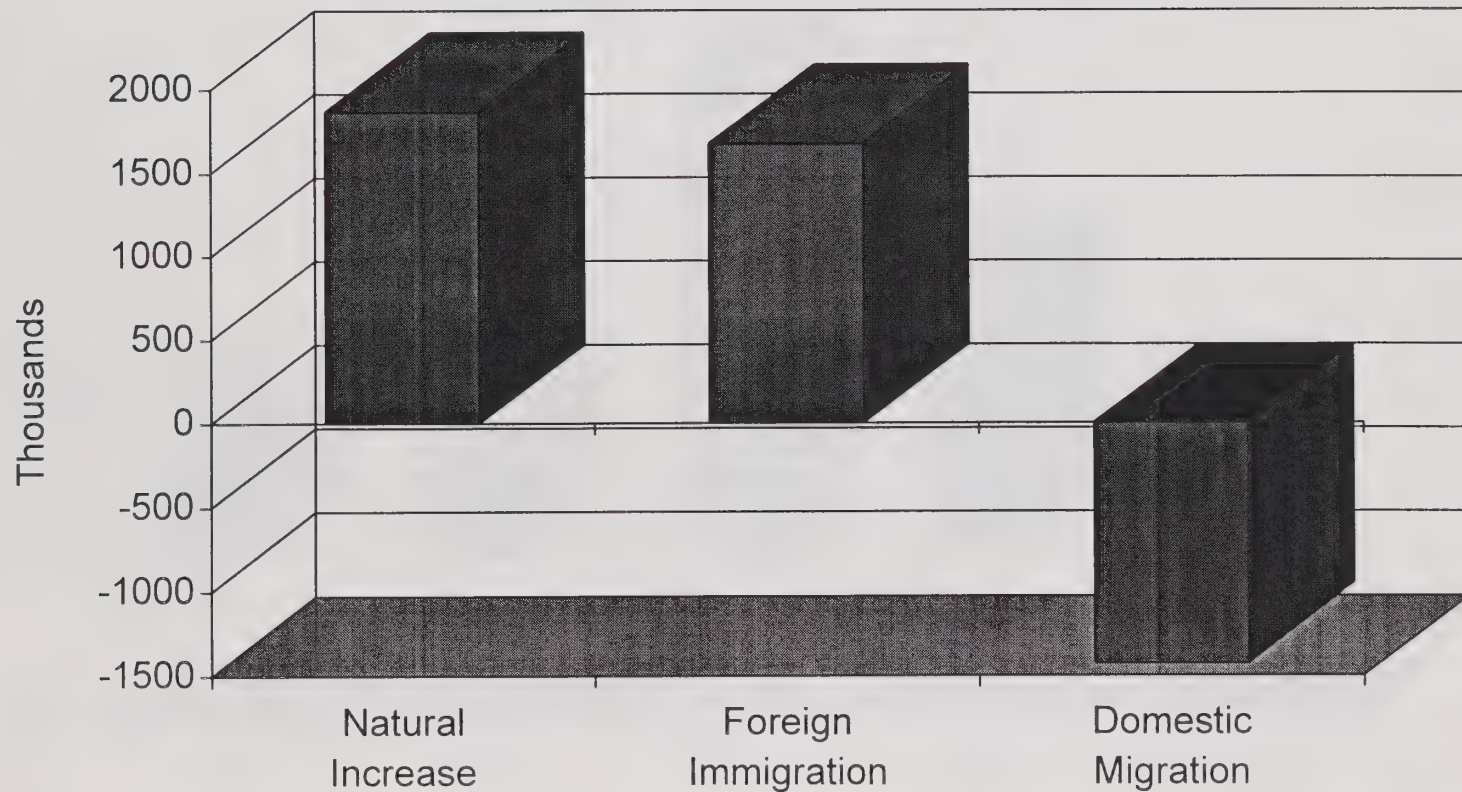


What happened to housing?

- ☑ *Out-migration was greater than originally estimated, and is continuing, albeit at a reduced pace*
- ☑ *Unfavorable age distribution: decline in 25 to 34 year-old population in the 90s*
- ☑ *Investment/speculative incentive gone: Why buy a house?*
- ☑ *Fiscal Zoning, high fees, NIMBY all hurt*

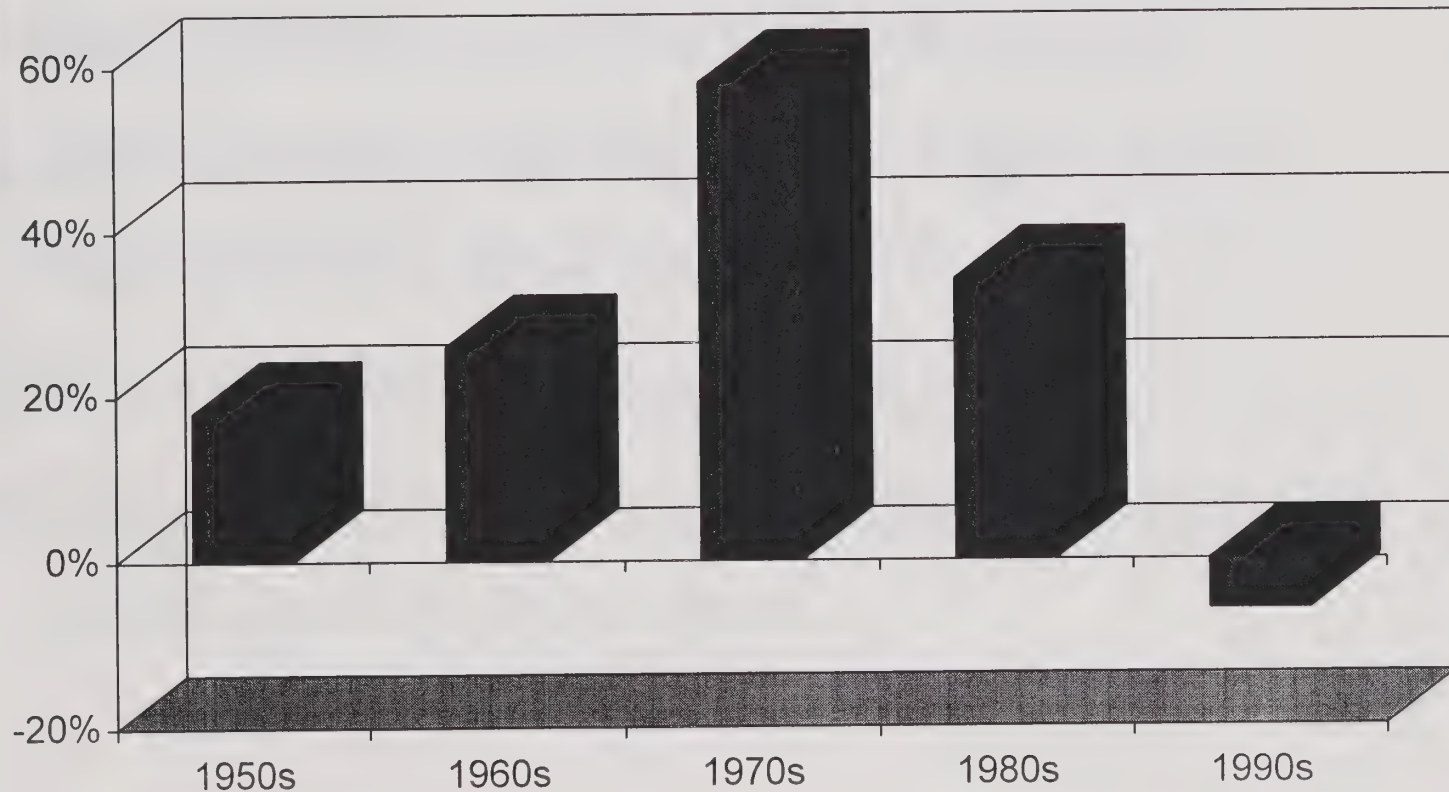
In the early 90s, California lost nearly 1.5 million residents to other states

Components of Population Growth, 1990-95



Declining young-adult population reducing housing demand

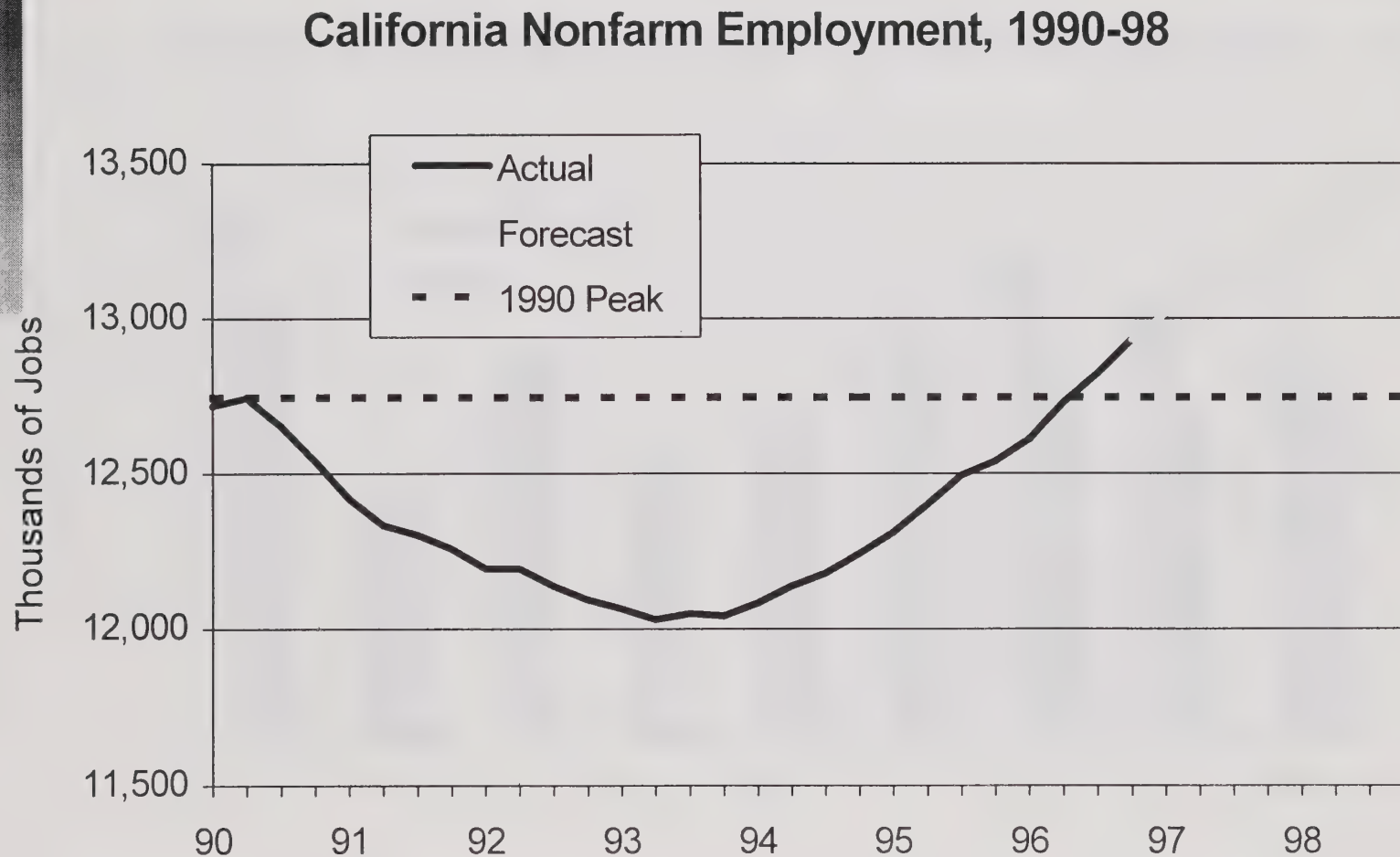
10-Year Change in 25-34 Year-old Population



Summing up: Solid growth ahead

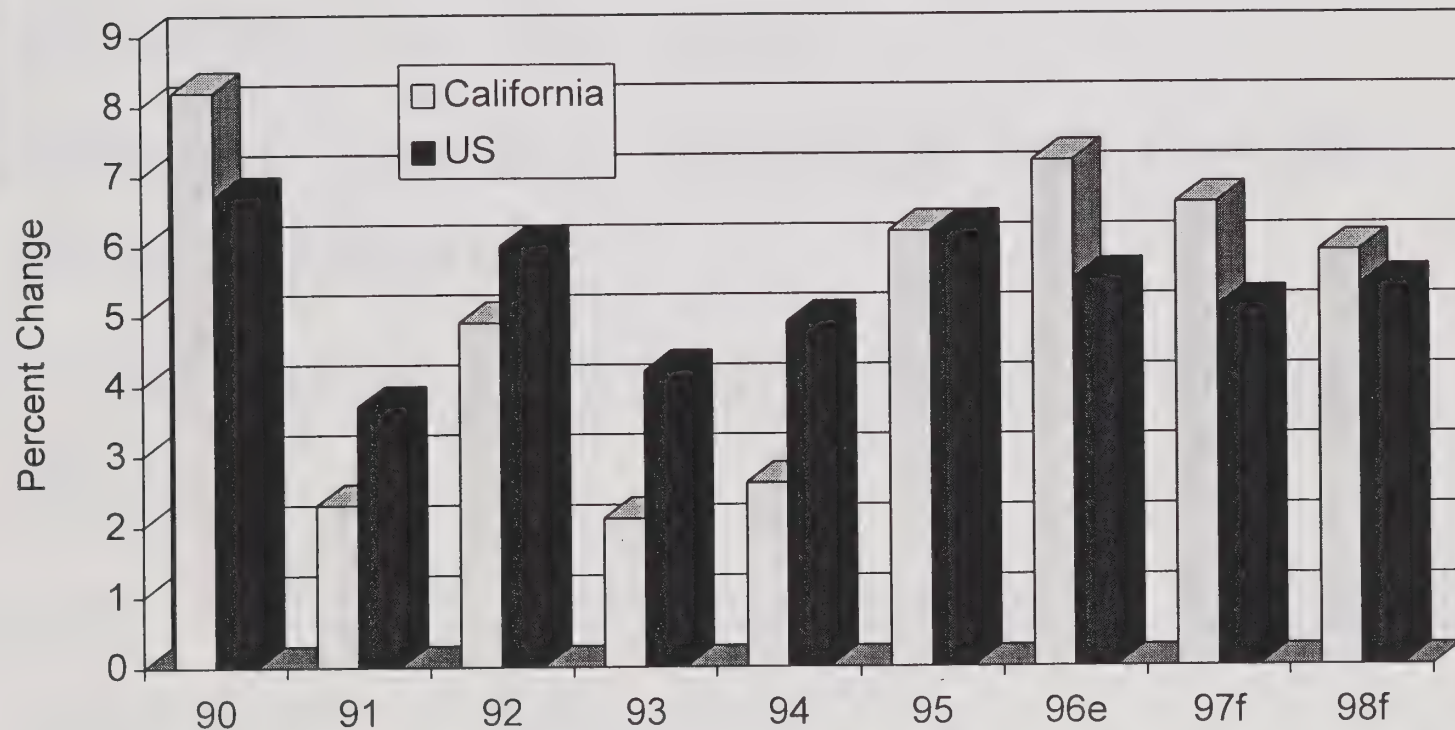
- ☑ *Restructuring industries are stabilizing (aerospace, communications)*
- ☑ *Still strong demand for high-tech equipment and software*
- ☑ *Export markets growing*
- ☑ *Employment, income should repeat 1996 gains this year*

*Employment passed 1990 peak in May 1996
and is up 1 million since recession low*



Income gains are also outpacing US average

Personal Income Growth, California and US



Some thoughts from Sacramento

- ☑ *Bay Area economy is fundamentally the strongest in the state*
- ☑ *Almost “perfect” industry mix for the 21st Century*
- ☑ *Will housing shortage be a limiting factor?*
- ☑ *Are Tracy, Lathrop, Manteca, Modesto now part of Bay Area???*

***BAY AREA
EMPLOYMENT & INCOME
1997~1998***

Paul W. Fassinger
ABAG Research Director

Traffic Signal on the Information Super Highway

- Things I'm Almost Sure Aren't True, But Are Interesting
- Things That May Be True, And Are Intriguing
- Things I Believe To Be True, and Should Be Useful

Probably Isn't True for 1997-98

- Angela Lansbury (TV Detective) Solves Nicole Brown Simpson, Ron Goldman Murders
- Stock Market Crash, Clinton Solves by Calming Small Investors
- Edgar Cayce Predicts Split in Roman Catholic Church Before 1998, One Pope in New York and One in Rome.

Psychic Predictions, *The National Examiner*, December 1996

May Be True

Warning Lights on the Infobahn?

- 3/4 of the World's Population Will Never Even Make a Telephone Call
- 3/4 of the World's Internet Activity Occurs in the Bay Area.
- 3/4 of All New Ideas Are Thought of By Someone in the Bay Area

Various Sources

What I Believe Is True

- Information (Internet, Hardware, and “Multimedia”) Continues to Drive the Regional Economy, But Will Begin to Slow
- National Problems (Recession, Inflation) Will Not Affect Us in the Short Term
- Current Employment “Boom” Will Begin to Slow: Productivity, Restructuring

Comparative Information

	Bay Area	L.A.	California
1996 Employment	2,996,000	3,848,000	12,746,000
Avg New Jobs '96	66,000	85,000	312,000
Job Growth '96	2.2%	2.3%	2.5%

EDD Wage and Salary Employment

Employment By Industry

	Bay Area	L.A.	California
Mining	0%	0%	0%
Construction	4%	3%	4%
Manufacturing	15%	17%	14%
High Tech	8%	2%	4%
Aerospace	1%	3%	1%
Trans & Utilities	6%	5%	3%
Trade	22%	23%	24%
F.I.R.E.	7%	6%	6%
Services	31%	32%	30%
Business	8%	3%	1%
Entertainment	-	3%	1%
Government	15%	14%	14%

Employment Growth 1995-96

	Bay Area	L.A.	California
Mining	0%	0%	0%
Construction	4%	12%	9%
Manufacturing	28%	0%	9%
High Tech	22%	-1%	5%
Aerospace	0%	-1%	-1%
Trans & Utilities	6%	2%	2%
Trade	22%	29%	24%
F.I.R.E.	7%	-1%	-1%
Services	31%	62%	53%
Business	9%	31%	23%
Entertainment	-	7%	3%
Government	3%	-4%	3%

1996 Bay Area Job Growth

- Computer Networking and Internet Companies Lead Expansion
- Aerospace/Military Conversion
- Financial Services
- Recent Disasters

Bay Area Manufacturing Jobs

(1995)

	Total Manufacturing	High Tech Manufacturing
Alameda	12%	7%
Contra Costa	6%	1%
Marin	1%	0%
Napa	2%	0%
San Francisco	8%	1%
San Mateo	8%	4%
Santa Clara	55%	81%
Solano	2%	1%
Sonoma	5%	4%

Changes in Unemployment

	1994	1995	1996
Alameda	6.1%	5.8%	5.0%
Contra Costa	6.2%	5.8%	5.0%
Marin	4.6%	4.3%	3.5%
Napa	6.8%	6.3%	6.1%
San Francisco	6.4%	6.1%	4.8%
San Mateo	4.7%	4.3%	3.5%
Santa Clara	6.2%	5.0%	3.7%
Solano	7.6%	7.9%	7.7%
Sonoma	5.8%	5.5%	4.6%
L.A.	9.4%	7.9%	8.0%
California	8.6%	7.8%	7.3%

Bay Area Forecast

	1996	1997	1998
Avg. Household Income	\$70,900	\$72,300	\$73,300
Inflation Rate	2.3%	2.8%	3.0%
Employment Growth	66,000	59,000	53,000

Why Some Slowing?

- Electronics Manufacturing Limited by Personnel, Type of Jobs in Bay Area, and Competition
- Restructuring of Industries Will Continue
- Technology, Finance, Tourism and Exports Will Provide Overall Growth

Household Incomes

(1996 Dollars)

	1996	1997	1998
Alameda	60,300	60,900	61,200
Contra Costa	77,100	78,600	79,500
Marin	91,300	92,800	93,800
Napa	63,500	64,600	65,300
San Francisco	62,700	64,100	65,300
San Mateo	79,000	80,700	82,000
Santa Clara	79,500	81,000	82,100
Solano	61,000	61,800	62,500
Sonoma	62,100	63,300	64,000
Bay Area	70,900	72,300	73,300

Conclusions

- No General Economic Slow Down In the Bay Area Until After 1998
- Economic Growth Doesn't Affect Everyone Equally
- May Begin to Face Limitations for Labor, Land, Ability to Allow Companies to Diversify

Taxable Sales: Analysis & Forecasts

*Dan Stone
ABAG Regional Planner*

Significance of Retail Sales

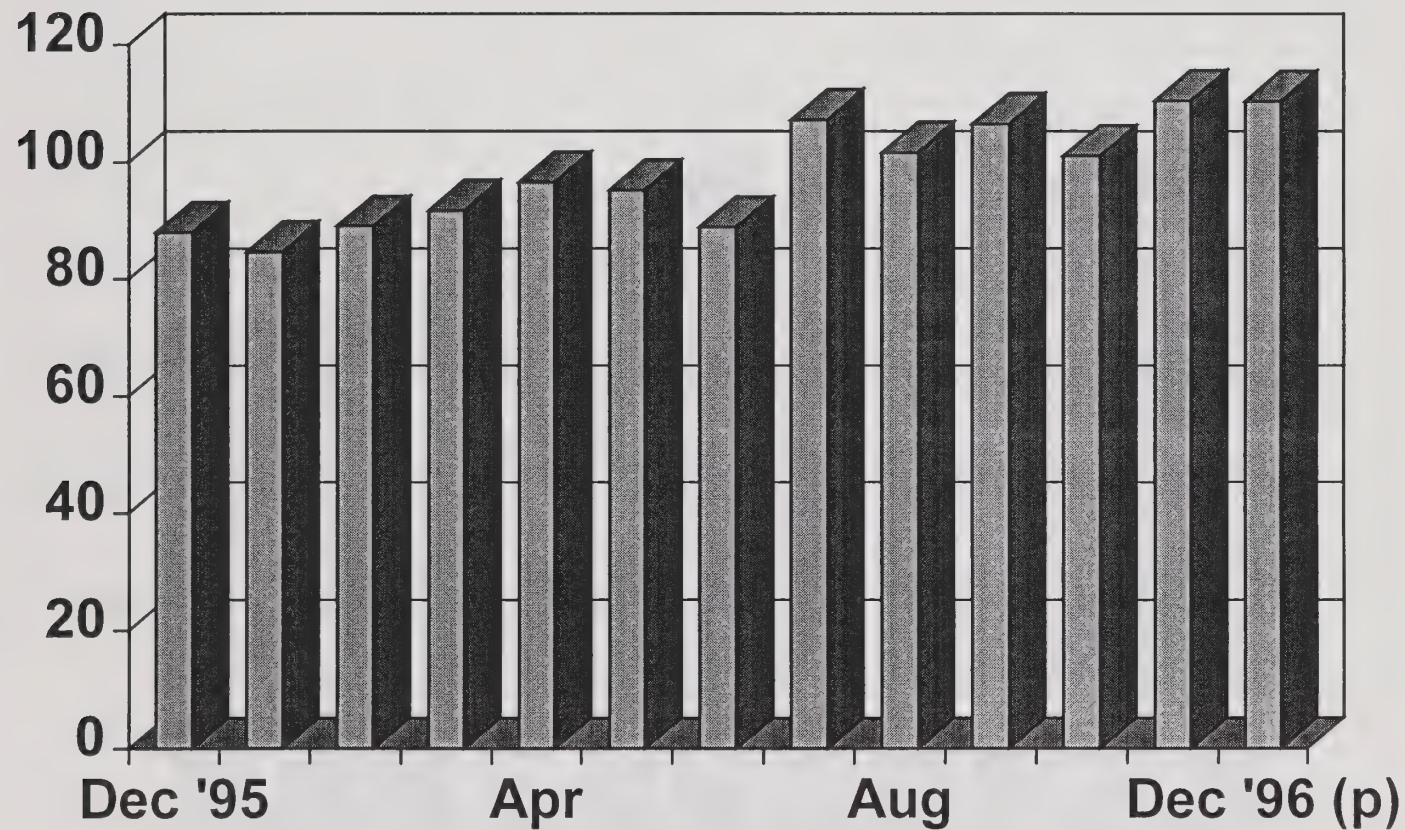
- ☑ Over 60 percent of Total Taxable Sales in Region
- ☑ Total Taxable Sales about \$75.6 Billion in 1995
- ☑ Approximately 20 percent of General Revenues to Bay Region City Governments

Factors Affecting Retail Sales

- ☑ Income
- ☑ Interest Rates
- ☑ Consumer Optimism
- ☑ National Economic Trends
- ☑ Demographics

Consumer Confidence

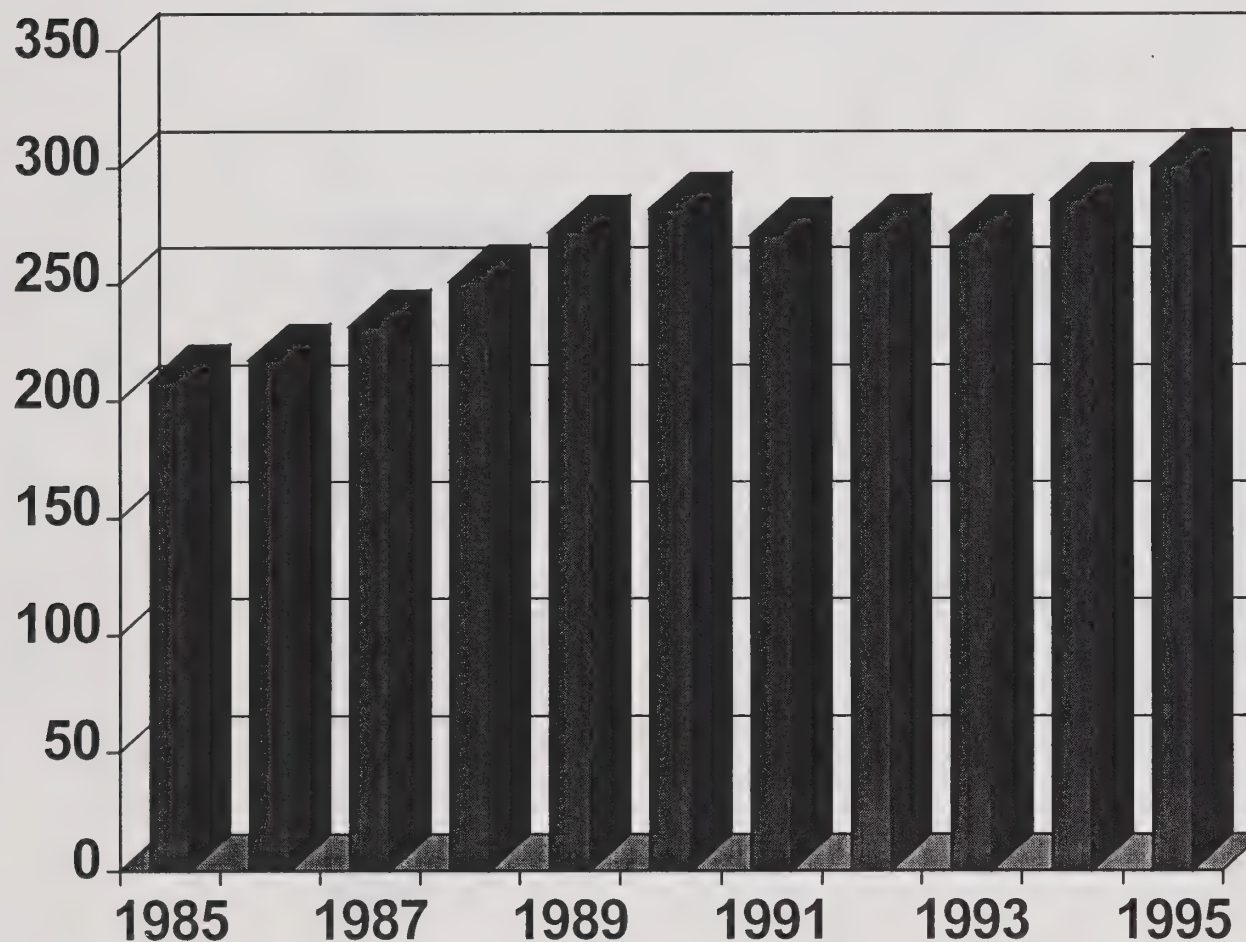
(Pacific West)



Source: The Conference Board (1985 = 100)

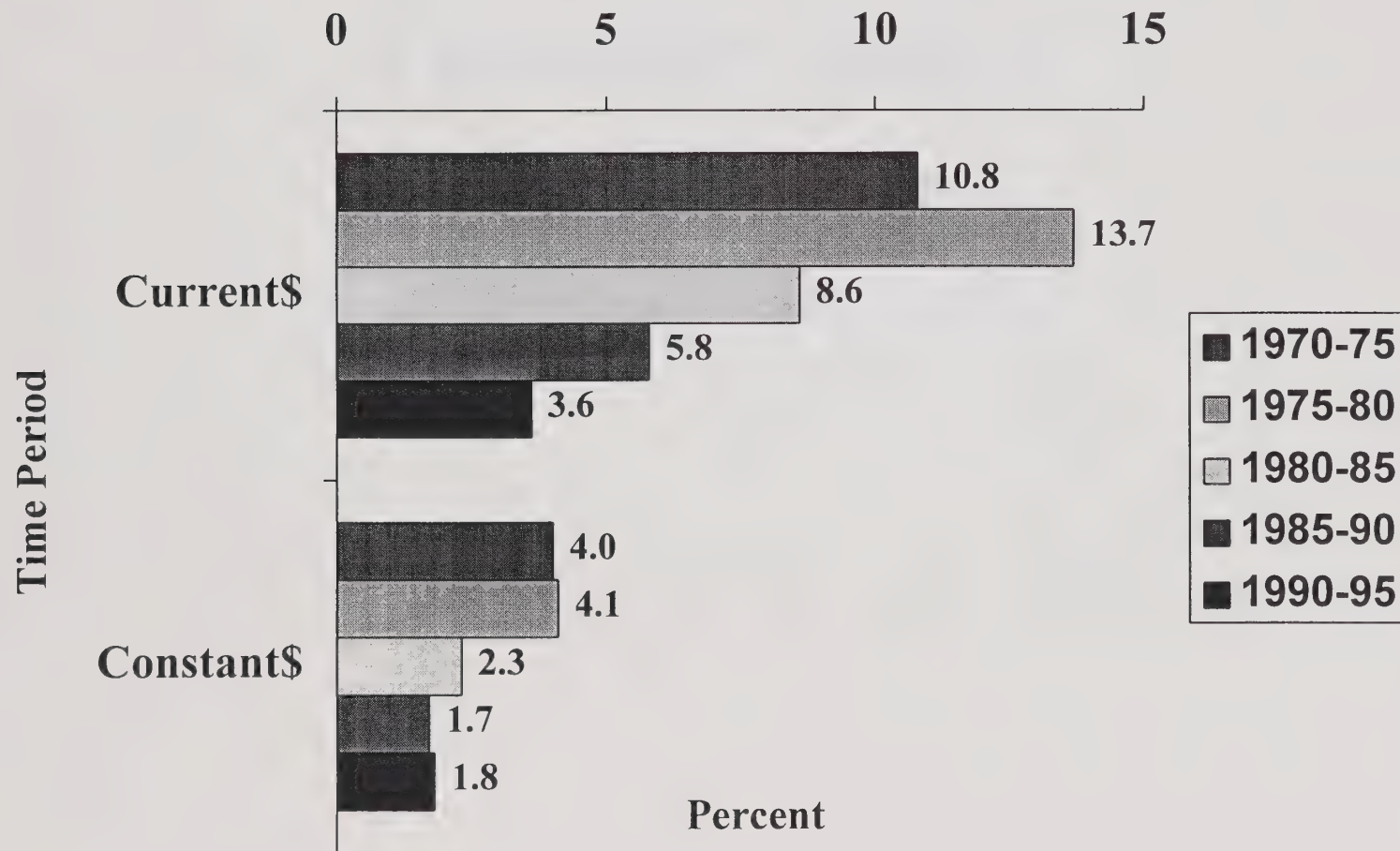
California Taxable Sales

(Billions of Current \$)



Average Annual Percent Growth of Total Taxable Sales

Bay Region 1970-1995



Taxable Sales Forecasts

Total Taxable Sales

S.F. Bay Region

1994-1998

	Total Dollars (Billion \$)	Annual Growth (Current \$)	Annual Growth (Inflation adjusted)
1994	68.9	4.8%	3.1%
1995	75.6	9.8	7.8
1996	83.2	10.0	7.7
1997	90.8	9.1	6.3
1998	97.9	7.8	4.8

Total Taxable Sales Growth

Bay Region

Percentage Growth, Inflation Adjusted \$

	Actual 1994	Actual 1995	1996	1997	1998
Total Sales	3.1	7.8	7.7	6.3	4.8
Retail Sales	2.3	4.7	5.3	5.0	4.0
Durable Goods	3.6	6.3	7.4	6.1	3.0
Nondurable Goods	1.7	4.0	4.3	4.2	2.9
Business/Personal Services	1.9	6.0	7.0	6.2	5.7
All Other Outlets	4.8	14.1	16.6	12.5	10.7
Inflation	1.6	2.0	2.3	2.8	3.0

Nondurable Retail Sales Growth

Bay Region

Percentage Growth, Inflation Adjusted \$

	Actual 1994	Actual 1995	1996	1997	1998
Nondurable Goods	1.7	4.0	4.3	4.2	3.9
Apparel	0.1	-3.6	0.2	0.0	-0.1
General Merchandise	2.0	2.1	1.1	0.9	0.9
Specialty Stores	6.3	9.6	11.3	9.9	8.7
Food Stores	-4.1	0.7	1.0	0.8	0.5
Restaurants/Bars	1.2	3.4	3.6	3.0	2.5
Service Stations	-0.5	6.0	6.6	6.0	5.0
Inflation	1.6	2.0	2.3	2.8	3.0

Durable Retail Sales Growth

Bay Region

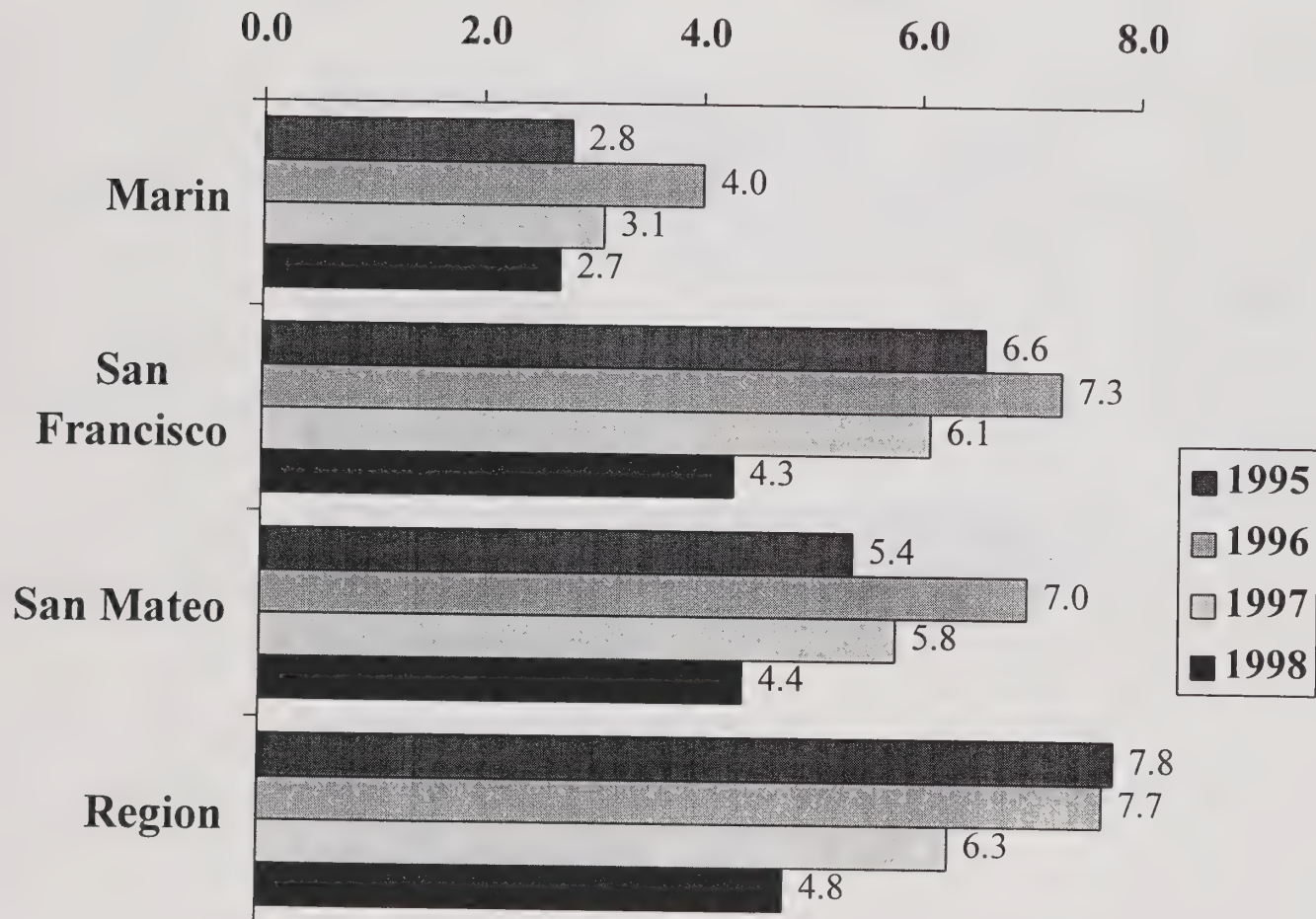
Percentage Growth, Inflation Adjusted \$

	Actual 1994	Actual 1995	1996	1997	1998
Durable Goods	3.6	6.3	7.4	6.1	3.0
Home Furnishings	4.3	5.1	5.7	5.1	4.3
Building Materials	2.7	4.5	5.2	4.6	4.0
Auto Dealerships	3.8	7.6	7.7	6.3	3.8
Inflation	1.6	2.0	2.3	2.8	3.0

Taxable Sales Forecasts by County

Marin, San Francisco, San Mateo

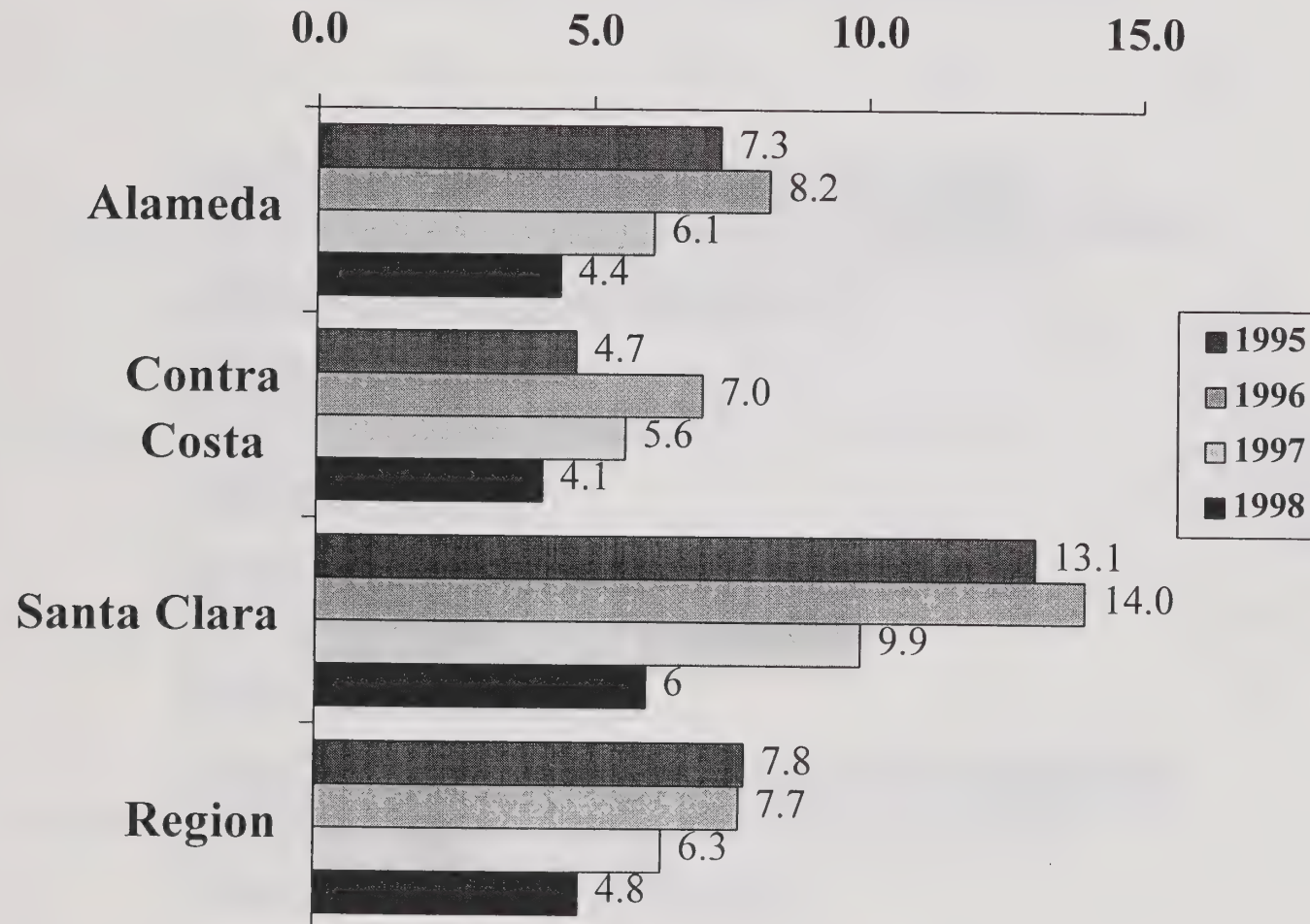
Percentage Growth, Inflation Adjusted \$



Taxable Sales Forecasts by County

Alameda, Contra Costa, Santa Clara

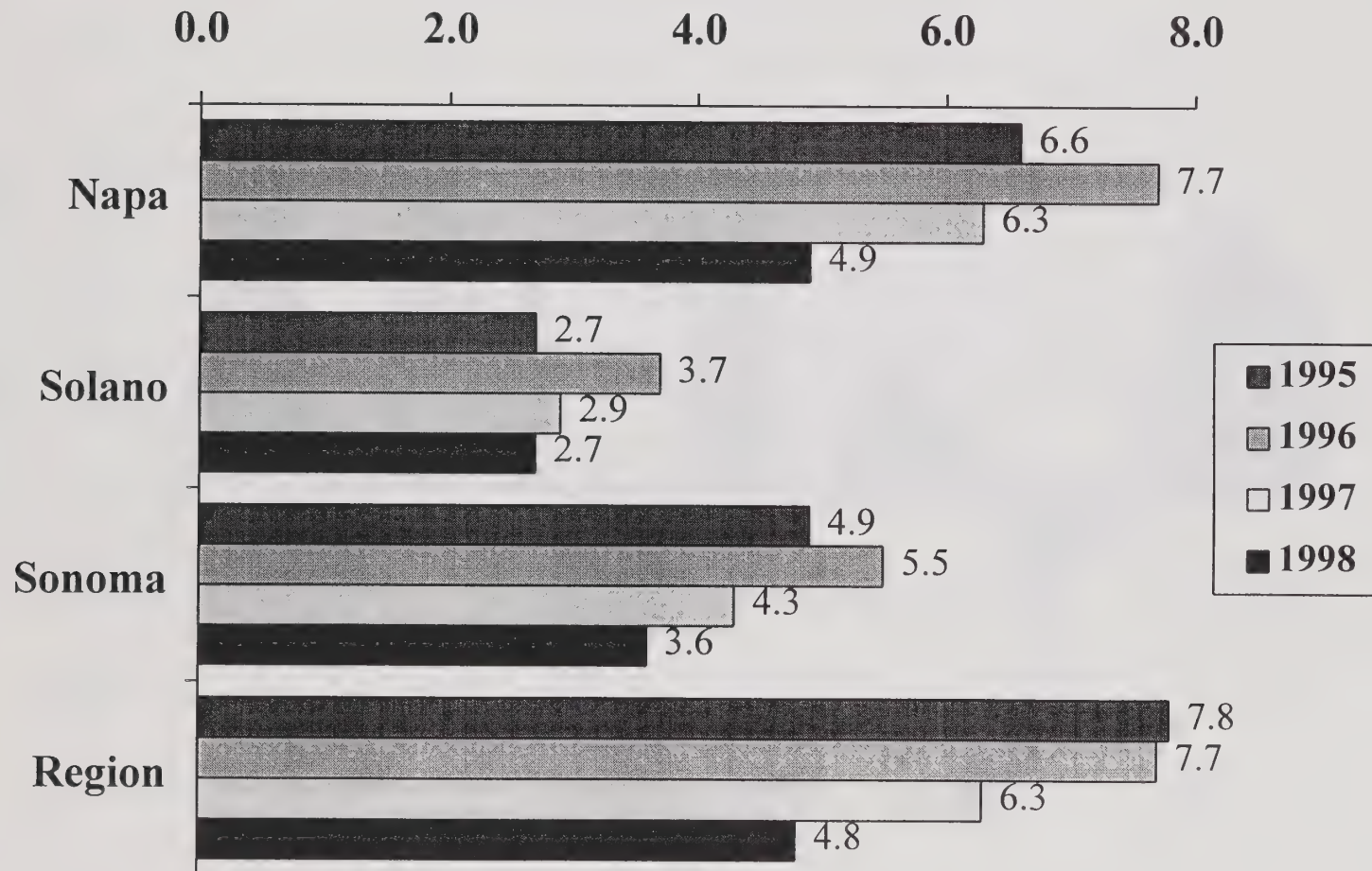
Percentage Growth, Inflation Adjusted \$



Taxable Sales Forecasts by County

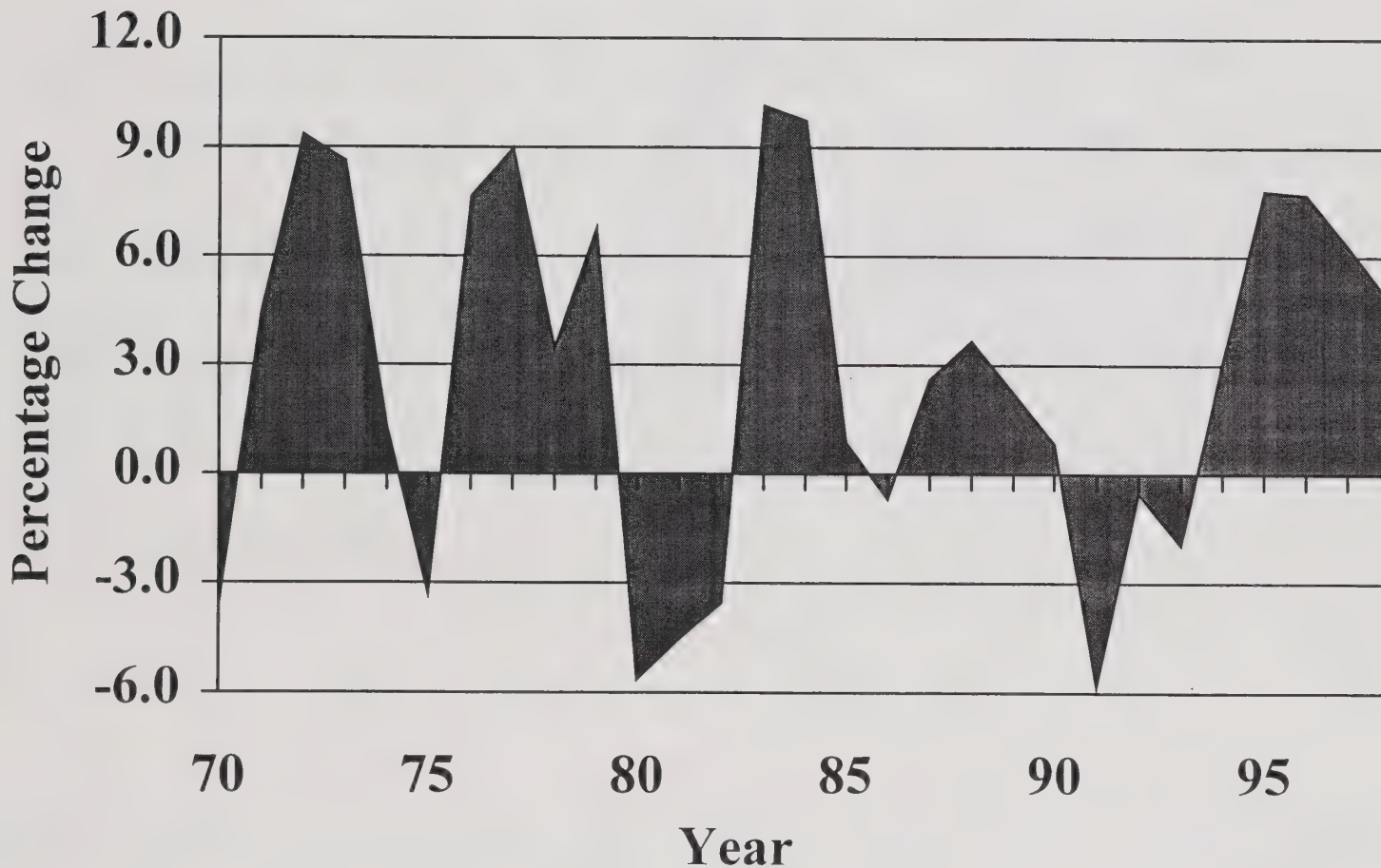
Napa, Solano, Sonoma

Percentage Growth, Inflation Adjusted \$



Percentage Change in Bay Area Total Taxable Sales, 1970-1998

(Inflation Adjusted \$)



Taxable Sales Summary

- ☑ Taxable Sales to improve 7.7% in 1996, 6.3% in 1997 and 4.8% in 1998 (Inflation Adjusted \$)
- ☑ Durable Goods cycle will taper off by 1998
- ☑ County level growth varies, South Bay strong
- ☑ 1995-1998 Annual Growth Rates Highest Since 1984

The Bay Area Rental Squeeze



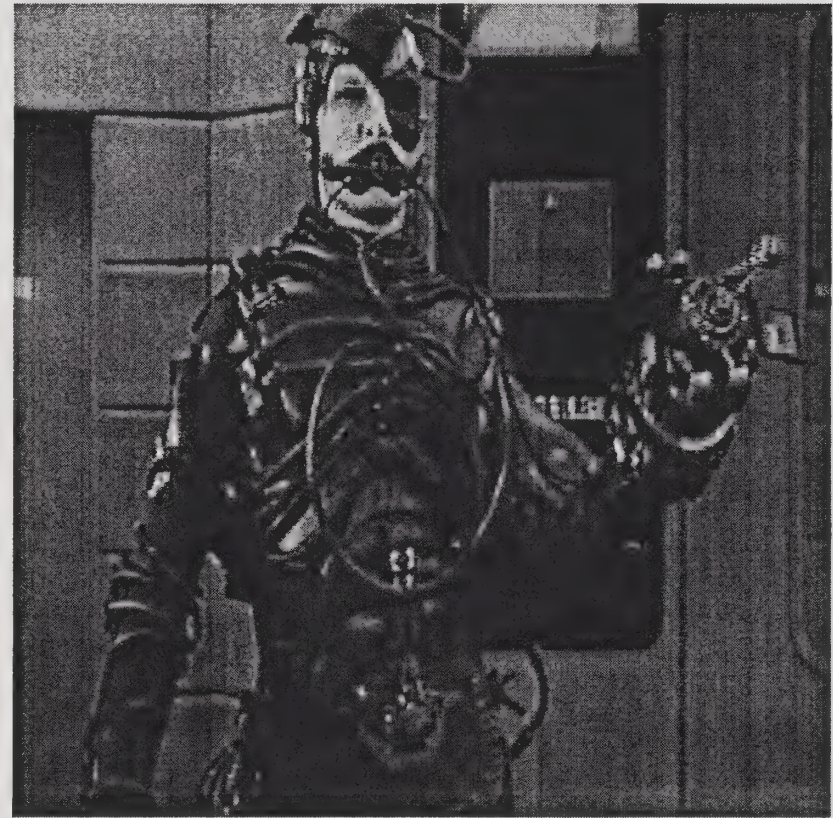
Bradley Inman

Inman News Features

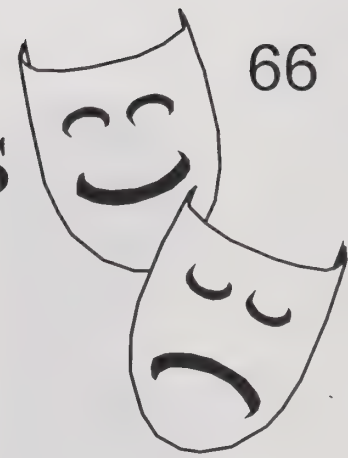


Welcome to the Bay Area Apartment Market!

- Rents are rising
- Vacancies are low
- Competition is fierce
- Renters have fewer choices
- Things are expected to get worse



Why so wonderful for landlords and so terrible for renters?



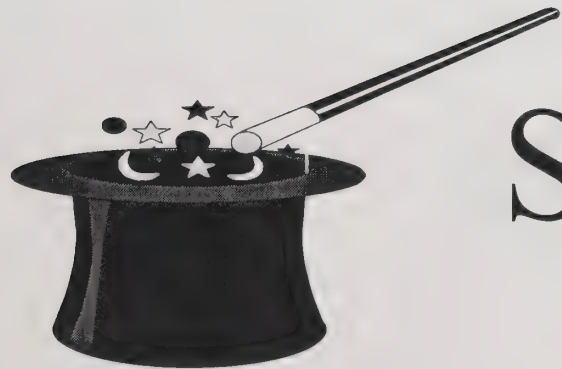
- Economy booming
- Renters storm area
- Age of new hires
- Urbanists not rural retreaters
- Homeownership too expensive
- Construction lags
- No conversions from commercial to apts
- Nimby Freaks



Implications for region

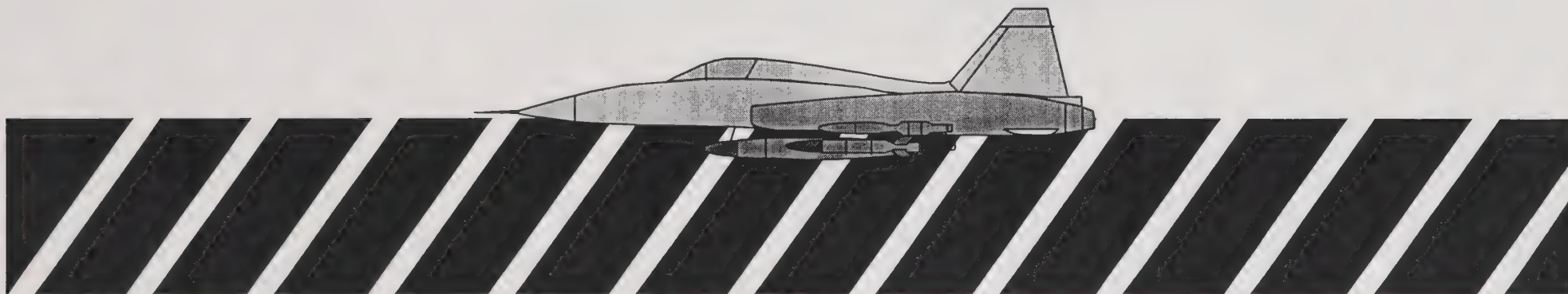
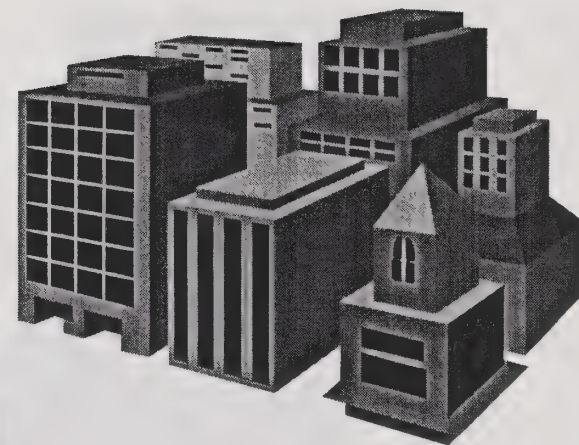
- Tighter market and rising rents
- Rent control
- Poor displaced
- Spill over to homeownership market
- Labor force gets angry and companies rethink location





Solutions

- Build more apartments
- Control rents
- Enable cities to do the right thing
- Priority at military bases



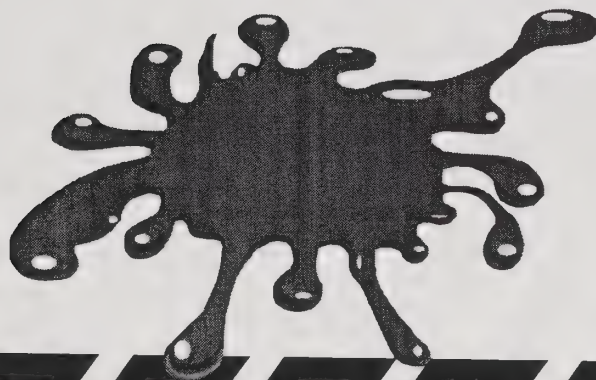
Radical solutions

- Let market figure it out
- Eliminate renters
- Take Betty Davis's advice



*“Fasten your seatbelts, it’s going
to be a bumpy night,”*

Betty Davis



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